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U.S.-CANADIAN FREE TRADE AGREEMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON SURFACE TRANSPORTATION

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON

THE TRANSPORTATION IMPLICATIONS OF THE U.S.-CANADIAN FREE TRADE AGREEMENT

MAY 26, 1988

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TRANSPORTATION IMPLICATIONS OF THE U.S.-CANADIAN FREE TRADE AGREEMENT

THURSDAY, MAY 26, 1988

U.S. SENATE,
SUBCOMMITTEE ON SURFACE TRANSPORTATION,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:00 p.m., in room 232A, Russell Senate Office Building, Hon. J. James Exon (Chairman of the Subcommittee) presiding.

Staff members assigned to this hearing: Robert Holleyman, staff counsel; Sheryl Webber Washington, professional staff member; and Alan Maness, minority staff counsel.

OPENING STATEMENT BY SENATOR EXON

Senator EXON. The subcommittee will please come to order.

This afternoon the Senate Surface Transportation Subcommittee is holding a hearing on the transportation implications of the U.S.-Canadian Free Trade Agreement.

I am pleased to welcome the witnesses to this afternoon's hearing, and we certainly look forward to their informative testimony.

Since transportation is the heart and soul of all commerce, the Free Trade Agreement will directly affect many of the concerns within the jurisdiction of this committee and our subcommittee. The expected increased flow of commodities across the U.S.-Canada border as a result of the agreement going into effect would likely have some major effect on transportation assets of the United States and the shipping patterns of commodities between the U.S. and Canada.

It is most important to determine if the effects on transportation arising from the agreement, whether intended or otherwise, whether direct or indirect, will be for the ultimate benefit or detriment of the United States. Other issues not covered by the agreement could also combine with the changes made in the agreement to affect commerce and transportation within the United States. These areas include the continued subsidization of Canadian agriculture, the Canadian practice to sell and move surpluses of grain at reduced prices rather than store grain, the U.S. practice of storing surplus grain rather than selling it,

the recent changes in the laws governing the Canadian rail system which could result in lower rates for Canadian shippers, and the maintenance of eastern Canadian Crows' Nest Pass Act rail subsidies for commodities shipped into the United States.

The United States already faces a serious and growing shortage of railroad grain hopper cars. The subcommittee is most interested in the Free Trade Agreement which might affect in any way, positively or negatively, on this situation. The subcommittee also has a keen interest whether overall shipping patterns will be affected by the Free Trade Agreement's reduction of tariffs and the elimination of western rail subsidies for grain shipped to the United States.

For example, will grain move south rather than west? How will this affect agricultural markets in the northern Plains states?

The subcommittee is also most interested whether the Free Trade Agreement, combined with other factors, will result in southern U.S. ports becoming new outlets for Canadian grain. Will the U.S. transportation system provide Canada with a new source of surge capacity to move Canadian grain into international market where U.S. grain is stored?

I come to this hearing with an open mind but with very great concerns about the Free Trade Agreement. The intent of this hearing is to answer some of these troubling but certainly most important questions.

I am confident that if the United States and Canada or the United States and the world conducted trade on a truly free and fair basis, free of trade barriers, dumping and subsidies, then the United States would hold an advantage as would those who produce so much of our wealth.

Our nation is unparalleled in the quality of its innovation, the dedication of its workers and its ability to continually improve American products and services through healthy competition. Our problem is that our trade relations do not exist in such a utopian environment, as much as we would like to have that. Too often other nations restrict entry of competitive U.S. products or employee subsidies, to give their industries and their agricultural producers a leg up on our free market system.

I am looking forward to testimony of the witnesses and I will simply tell the witnesses that any prepared statements that you have to be presented today will be accepted in full without objection, and I say that with regard to all of the witnesses who will testify today and I would certainly hope that then you would be in a position, each witness, to give a brief summary of your prepared statements, if you have one, and with that, then, we could proceed to rounds of questioning.

We are going to have some Senators in from time to time, and we will try and move this hearing along so that everyone can have a fair amount of time, and to give the members of the subcommittee a fair amount of time to ask questions that we might have based on the testimony.

Senator John Melcher is on his way over, as I understand it. We will wait just a few moments to see if we can accommodate him. I know that Senator Quentin Burdick will be along in just a few moments. But possibly, to move on with the hearing and with my apologies to the

first panel, I would like to call them at this time, and my apology would be that the Chairman might be required to interrupt your testimony if Senator Melcher is on a tight time schedule. But I will at this time call Panel No. 1, Mr. William Merkin, the Deputy Assistant to the U.S. Trade Representative, and Ms. Ann Veneman, Associate Administrator, the Foreign Agricultural Service.

Would Mr. Merkin and Ms. Veneman please come forward?

If it is satisfactory, since you are first on the list, Mr. Merkin, we will begin with you.

STATEMENT OF WILLIAM MERKIN, DEPUTY ASSISTANT TO THE U.S. TRADE REPRESENTATIVE FOR CANADA, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Mr. MERKIN. Thank you very much, Mr. Chairman.

I would like to submit for the record a copy of my statement, as well as a summary of the Free Trade Agreement and a list of over 500 companies and organizations which support the agreement, and a resolution from the National Governors Association endorsing the agreement.

Senator EXON. Those have been accepted, and we appreciate your furnishing us with that information.

Mr. MERKIN. Thank you very much.

I will be very brief, Mr. Chairman.

I would like to focus my remarks on the agreement as a whole, and Ann Veneman will focus then on the agricultural provisions. I have also brought along Arnold Levine, who is Director of the Office of International Transportation and Trade at the Department of Transportation in case any questions come up that he can help us with.

The U.S.-Canada Free Trade Agreement is the most comprehensive bilateral trade agreement we have ever negotiated. Let me quickly, very quickly, highlight its main provisions.

First of all, the agreement eliminates all tariffs between the two countries. We believe this is very beneficial for the United States because on average, Canadian tariffs are twice as high as U.S. tariffs. We also for the first time have a bilateral agreement with Canada covering trade in services. This is very important both for the U.S.-Canada bilateral trade as well as our efforts in the GATT Uruquay Round to bring discipline over trade in services in that forum.

We have also concluded the first bilateral agreement with any other country covering financial services. We are establishing freer and more secure trade in energy. Under the agreement, the United States would get nondiscriminatory access to Canadian energy supplies, and Canada gets secure market access for its energy exports to the United States.

Also for the first time, the United States and Canada have agreed to rules governing bilateral investment activities. There are also provisions governing automotive trade, alcoholic beverages, customs matters, government procurement, product standards, personnel movement and many other areas, but I will just refer to the summary instead of trying to describe all of those at this hearing.

Despite everything we did accomplish in this negotiation, the agreement is not a panacea for every ill. It will reduce but not end trade frictions. It will minimize but not eliminate trade distortions. Nevertheless, we believe it is an important improvement over the prevailing situation and a significant step toward freer trade between our two countries.

Some are disappointed that this agreement did not resolve all of our bilateral problems, and I can certainly sympathize with that view. However, I believe the appropriate question on both sides of the border should be will this agreement make my country a better and more prosperous place to live a year from now, a decade from now or a half century from now? We obviously believe that the answer to that question will be a resounding yes.

Mr. Chairman, that concludes my formal remarks.

At this point I think Ann would like to talk about the agricultural provisions.

Senator EXON. Thank you, Mr. Merkin.

Just let me say that I appreciate your statement. I appreciate very much the detailed information that you have submitted for the record. We will have a chance to look at it in more detail.

I said I come here with an open mind, and I do. I feel that certainly from the manufacturing point of view, this trade agreement undoubtedly is fair and a positive one from what I know of it.

My concern is not only with regard to what it might do to the transportation system of the United States, whether it would have any negative effect on that, but would be particularly adverse to the agricultural sector, and I guess some of the questions that I have in my own mind on this is that have the agricultural producers been as fairly treated as the manufacturing sector, and I think that is a point that maybe you would like to address a little bit later on when we get further into questions.

Mr. MERKIN. I certainly will be glad to, Mr. Chairman.

We obviously believe we have a good deal for both the agricultural side of the equation as well as the manufacturing, but I will let Ann describe some of that for you.

[The statement follows:]

STATEMENT OF W S. MERKIN, DEPUTY ASSISTANT U.S. TRADE REPRESENTATIVE FOR CANADA

Thank you for the opportunity to testify before you today on the U.S.-Canada Free Trade Agreement. I would like to focus my remarks on the Agreement as a whole. while representatives from the Department of the Agriculture will discuss in more detail the agricultural provisions which are of particular interest to this Subcommittee.

The formal signing of the Free Trade Agreement on January 2 by President Reagan and Prime Minister Mulroney culminated almost two years of complex, and sometimes difficult negotiations. It is all too easy, especially in politics, to use hyperbole. But it is no exaggeration to say that this is a truly historic document.

Trade between the United States and Canada too often is taken for granted. Our trade problems with Japan and the European Community are so much in the spotlight that most Americans still don,t realize Canada is our biggest trading partner. Yet over $150 billion in goods and services cross our common border annually. With $60 billion in U.S. exports in 1987, Canada is our largest and fastest growing export market.

These negotiations were characterized by hard bargaining and difficult compromises. Many will seek to identify winners and losers. but that approach is too narrow. This is

a win-win Agreement. It should result in increased economic activity, higher trade levels, more jobs, and enhanced competitiveness for both the United States and Canada. The people of both countries will benefit from this Agreement, through lower prices and greater consumer choice.

The U.S.-Canada Free Trade Agreement is the most comprehensive bilateral trade agreement ever negotiated. As the world's largest trading partners we are constructing the world's largest shared market. We have submitted to the Subcommittee today an extensive summary of the Agreement. Therefore, in my formal statement I will only highlight its main provisions.

Under the Agreement, we have eliminated all tariffs between the United States and Canada, without exceptions. Since Canadian tariffs are, on average, twice as high as comparable U.S. rates, total tariff elimination will provide significant benefits for the U.S. exporter. For the first time since services became a major international commercial issue, two major trading partners have negotiated an agreement establishing rules for bilateral trade in services. These rules will cover scores of service sectors, such as construction, telecommunications network-based enhanced services and computer services, architecture, accounting, tourism, insurance and engineering. Not only is this important for U.S.-Canada services trade, but it provides a concrete first step for our efforts to formulate multilateral rules for services at the GATT Uruguay Round. We also concluded the first bilateral agreement with any other country covering the financial services sector.

We are establishing much freer and more secure trade in energy. The Agreement calls for nondiscriminatory access for the United States to Canadian energy supplies and secure market access for Canadian energy exports to the United States. Energy prices will be determined by markets, not by governments. This means that the Canadian Government will not be able to impose higher prices on us than they charge Canadians. Cheaper and more secure energy supplies will make U.S. industries more competitive, both in North America and throughout the world.

Also for the first time, the United States and Canada have agreed to rules governing bilateral investment activities. The Agreement reduces the screening of U.S. investment in Canada, and moves Canada towards a more open, market-oriented investment environment. There are also provisions covering automotive trade, agriculture, alcoholic beverages, customs matters, government procurement, product standards, personnel movement, and many other areas. These are all described in detail in the summary we submitted to the Subcommittee today.

The proposed Agreement spans many sectors of our economies. Numerous U.S. industries and groups have already voiced strong support. Nonetheless, we recognize that, despite widespread enthusiasm for this Agreement, some may disagree. For some, there may be too much free trade in this Free Trade Agreement. Some special interests will see themselves as vulnerable to increased competition in a free trade area. Others may be timid, afraid to try a creative approach to the future, fearful of the unknown, thinking that no change means no risk. Yet in this dynamic, interdependent world of ours, the future inevitably holds risks, and the status quo is never sustainable. To do nothing is to retrogress.

Then there are those who are disappointed because they wanted more and wanted it now. Unfortunately, some entered these negotiations with unrealistic expectations that the negotiations would cure all their ills. This Agreement is not a panacea for every ill. It will reduce, but not end, trade frictions. It will minimize, but not eliminate, trade distortions. There never has been, and likely never will be, perfectly free trade between any two independent sovereign countries. This Agreement was never intended to solve all our bilateral trade problems and should not: be expected to do so. By establishing dispute resolution and consultation mechanisms, the agreement explicitly recognizes this fact. It is a vast improvement over the prevailing situation, and a bold step toward significantly freer trade between our countries. It is a massive advancement over the status quo.

Failure to implement this Agreement would have serious repercussions for both countries. The United States and Canada would clearly miss out on a once-in-a-century opportunity. We would be deprived of the enormous economic gains which will come from this Agreement as well as the intangible benefits of developing an even closer relationship with our friendly neighbors to the north.

We would also lose the impetus it gives to the new GATT round. If the United States and Canada—the two largest trading partners in the world, next door neighbors, the closest of friends and allies—cannot liberalize their trading relationship, what hope do we have of success in Geneva?

The question on both sides of the border should be: "Will this Agreement make my country a better and more prosperous place to live a decade or a half century from now?" The objective answer to that question will be a resounding yes!

We must keep our eyes squarely on the long-range benefits for each nation as a whole. This Agreement will help both Americans and Canadians enter the 21st century more competitive and better prepared for the future.

We should approve this Agreement and then build on it in the future. It will, without doubt, be the most significant bilateral trade agreement either country has ever negotiated.

Senator EXON. Ms. Veneman?

STATEMENT OF ANN VENEMAN, ASSOCIATE ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, DEPARTMENT OF AGRICULTURE; ACCOMPANIED BY KEITH GLENWORTH, ECONOMIST; FRANK GOMME; AND DAN BRINZA

Ms. VENEMAN. Thank you, Mr. Chairman.

We also have several resource people here from the Department of Agriculture today to assist in answering questions, including a representative of our USDA Office of Transportation and Grain Division, et cetera.

For U.S. agriculture, Canada is, as you know, both a major market and a major supplier. Total U.S. agricultural imports from Canada in 1986 reached nearly $2 billion, and Canadian imports from the U.S. were even higher at $2.7 billion. Canada is consistently our fifth or sixth largest agricultural customer.

As to the specific provisions of the agreement that affect agriculture, as Mr. Merkin indicated, all tariffs will be eliminated, including agricultural tariffs, within 10 years. We believe this will facilitate trade and lead to higher efficiency, and the agricultural sectors most likely to be affected by the tariff elimination will be fresh fruits and vegetables, because some of the highest agricultural tariffs are applied on those products.

After a year and a half of intense negotiations, the United States and Canada have reached an Agreement that, if approved, will ease restrictions that affect trade between our countries.

In addition to strengthening our important bilateral trade relationship with Canada, the Agreement represents an important step forward in broader trade liberalization. It includes a commitment for the United States and Canada to work together in the General Agreement on Tariffs and Trade for freer and fairer trade worldwide. Success in that effort would benefit the agriculture sectors on both sides of the border.

The Agreement also would provide U.S. and Canadian agricultural producers increased opportunities to market their products in the future with no tariff barriers and with fewer nontariff barriers.

All agricultural tariffs between the United States and Canada will be eliminated within 10 years. This will facilitate trade and lead to higher efficiency. The agricultural sectors likely to be most affected by the

tariff elimination will be fresh fruits and vegetables because some of the highest agricultural tariffs are applied on those products.

Tariffs on fruit and vegetables will be eliminated on a 10 year schedule, however, both countries will reserve the right, for twenty years, to apply a temporary duty on designated fresh fruits and vegetables should there be import surges from the other country. This will facilitate a smooth transition to a tariff-free border and prevent unnecessary hardship to fruit and vegetable producers.

In the area of subsidies, subsidies, as you know, is a very difficult issue to address from the standpoint of the bilateral agreement. We are working in the multilateral Uruquay Round to address subsidies, and we agreed in the Free Trade Agreement with Canada to work together to achieve on a global basis the elimination of all subsidies which distort agricultural trade through multilateral negotiations such as the Uruguay Round. This is consistent with our proposal in the Uruguay Round, and we feel that it is important to have this type of reference and support for our effort in the multilateral negotiation where we do hope to achieve significant progress in the area of elimination of subsidies and agricultural reform.

In the agreement, we also have a provision that neither country will use export subsidies on agricultural goods exported directly or indirectly to the other country. We have agreement that each country will not, or any government entity of either country will sell agricultural goods to the other country at a price below the acquisition cost plus handling, storage and other costs. This will affect entities such as the Wheat Board.

We should address some of the concerns that you expressed in your opening statement regarding the possibility of Canadian wheat being dumped into this market. That is an extra protection that we do not have, an extra protection that we have under this agreement.

On the issue of transportation subsidies, we have heard a great deal about the fact that in this agreement there was a specific reference to the elimination of Western Grain Transportation Act subsidies as they pertain to products originating in Canada and shipped via west coast ports for consumption in the United States.

The United States first became an eligible export market for these subsidies through the West Coast with implementation of the Western Grain Transportation Act in 1984. The Western Grain Transportation Act modified the Canadian Grain Transportation Subsidy System first created by the Crows' Nest Pass Act of 1897. This provision of the agreement will not affect WGTA subsidies on shipments moving east from the prairie provinces to Thunder Bay which are not conditioned on export.

We expect virtually no change in U.S. transportation flows as a result of the transportation provisions of the agreement. If Canadian exporters were to use rail subsidies to export either from the Pacific Coast or through the Gulf to Asia, they would pay significantly higher transportation rates than if they used the Canadian system.

I think it is important to emphasize that the agreement does not maintain or retain the WGTA subsidies through eastern ports. It simply does not affect them. Like all other domestic subsidies in both countries, the agreement simply has not addressed these. The issue of WGTA rail subsidies for products moving through eastern ports, including Thunder Bay, as well as other domestic subsidies, will be addressed in the Uruguay Round GATT negotiations.

In addition, it is important to note that under the agreement we have maintained all rights to countervailing duty and antidumping laws, and therefore, if U.S. producers are injured by Canadian rail subsidies, they will have access to these remedies.

In the area of access, Canada has agreed to eliminate import licenses for U.S. wheat, barley, oats and their products when U.S. government support for the particular product is equal to or less than that of Canada. When this occurs, the elimination of licenses will provide greater access for the United States to the Canadian market for both grains and processed products containing grains.

Both countries have reserved their right under the agreement to impose or reimpose restrictions on particular grains if imports increase significantly as a result of a substantial change in either country's support programs for that grain. The two countries will exempt each other from import quotas applied under the meat import laws unless those imports are frustrating import restrictions on meat imports from other countries.

In addition, Canada has agreed to increase the base level for its import quotas for eggs, chicken, turkey and products to a level reflecting total shipments over the last five years. Furthermore, the agreement will not affect the ability of either country to change domestic support programs for agricultural products.

Another section of the agreement which affected agricultural goods is a section which relates to technical regulations. The U.S. and Canada agreed to work together to harmonize technical regulations affecting agricultural, food, beverage and related goods. These provisions we believe will facilitate trade for both countries by eliminating where possible technical requirements that can amount to nontariff trade barriers.

This agreement will not end every agricultural trade dispute between the United States and Canada, but it does provide, we believe, a useful framework for moving toward freer and more open trade, and by calling for U.S.-Canadian consultations on agricultural trade issues twice a year, it should keep the trade liberalization process moving in the right direction.

Mr. Chairman, that does complete my testimony, my formal remarks, and as I said, we have several people here that will be available to assist in answering questions as well.

[The following information was subsequently received for the record:]

QUESTION OF SENATOR EXON AND THE ANSWER THERETO

Question. Mr. David Senter testified on behalf of the American Agriculture Movement that as of the date of the subcommittee's hearing, the U.S. was not exporting any corn to Canada. He further testified that 200,000 metric tons of Canadian corn will flow into the U.S. this year, in contrast with 2 million metric tons of U.S. corn exported to Canada in 1984. This seems to be inconsistent with your response to one of my questions in which you stated that the U.S. ships about 500,000 metric tons of corn to Canada. Please respond to this.

Answer. In response to your question concerning the quantity of United States exports of corn to Canada, official Canadian import data show approximately 470 thousand metric tons of U.S. corn entering Canada in 1984. In 1986, Canadian imports of U.S. corn rose to 682 thousand metric tons. Imports of U.S. corn fell to 151 thousand metric tons in 1987. Corresponding U.S. imports of corn from Canada totaled 202 thousand metric tons in 1986 and 31 thousand metric tons in 1987.

The U.S. Census data show U.S. exports of corn to Canada as being somewhat less than the imports reported by Canada. However, U.S. Customs data tend to understate our exports to Canada because shipments leaving the United States after the normal working hours of U.S. Customs may not always be recorded.

Senator EXON. Thank you very much, Ms. Veneman. We appreciate your testimony.

Let me see if I can—as I understood the testimony that you just gave, you've indicated that either Canada or the United States could, if one country or the other would significantly change the subsidy from the time the treaty goes into effect to some later date, that they each reserve the right to raise tariffs at their discretion?

Is that correct?

Ms. VENEMAN. No, that section I was referring to is a provision of the agreement that permits each country to retain the right to impose GATT consistent quantitative restrictions such as Section 22, so long as imports increase significantly as a result of change in price support program of either party.

And so that is not a tariff provision per se.

Now, in looking at this provision, it is important to recognize that, first of all, you have to meet the conditions of Section 22, and then you look at the test of whether or not the imports have increased significantly as a result of a change in price support programs.

So that is an issue where yes, we do have the ability to still imports Section 22 quotas, and likewise would apply to the Canadian grain licensing system.

Senator EXON. Let me ask—clarify for the record, if you can, that part of the agreement that provides that the Canadian government will not subsidize rail shipments of grain to the west, but they maintain the right to subsidize shipments of grain to the east, is that correct?

Ms. VENEMAN. The agreement does not specifically state that they maintain the right to subsidize to the east. It simply does not address the question.

Senator EXON. What does the agreement say, that you cannot subsidize wheat to the west, but it is silent on the east, shipment?

Ms. VENEMAN. That is correct, but let me explain the basis behind how that came together as part of the agreement.

The agreement does not address domestic agricultural subsidies in either country. In other words, deficiency payments,, those types of things, anything that is applied across the board is not addressed in the agreement. It was felt that these are issues, domestic subsidies in agriculture are something that must be addressed in the multilateral round because of the worldwide impact of such subsidies. In other words, it cannot really eliminate our deficiency payments system at this point without agreement from the countries.

So domestic subsidies were not addressed by this agreement, but rather, the countries agreed that they would work together in the Uruguay Round to eliminate all trade-distorting subsidies, but the two countries did agree that they would not use export subsidies for product exported to the territory of the other party. So we would not, for example, be able to use the Export Enhancement Program for product to Canada. We don't use it now.

An export subsidy is defined as a subsidy which is conditioned upon export. In other words, you can't get the subsidy unless you are going to export.

The Western Grain Transportation Act subsidies through western ports are conditioned upon export, and so therefore, it was consistent with the provisions and the overall subsidy provisions of the agreement that the WGTA subsidies through western ports would be eliminated since they are conditioned on export.

On the other hand, the ones through Thunder Bay are longstanding subsidies that are across-the-board domestic type subsidies and not conditioned on export.

Senator EXON. And grain moving into international commerce through Thunder Bay will continue to be—will be subsidized from the standpoint of the standard rail subsidies that they have had in the past, is that correct?

Ms. VENEMAN. Those subsidies were not addressed in the agreement, and assuming that—we assume that Canada will maintain those subsidies. They are not affected by the agreement unless they were—if they were to take all of those rail subsidies and turn them into, conditioned upon export, they certainly would be affected by the agreement, but they are not conditioned on export, and therefore they are unaffected by the agreement.

Senator EXON. A bushel of wheat that is delivered out of Canada to the Thunder Bay area, where is that wheat most likely to go? Into the international shipment of some kind? After it gets to the port of Thunder Bay, where does it go?

Ms. VENEMAN. I am going to call upon some of my technical experts if we are going to get into some of these questions.

Senator EXON. We are glad to have any people come up and help us out with this. Please give us your name and title so that we can help out the recording secretary in that regard.

Mr. GLENWORTH. My name is Keith Glenworth. I am a economist with the Office of Transportation, U.S. Department of Agriculture.

The specific answer to that is that most of the grain going to Thunder Bay would be going to export to third countries. Very little of that would be going to the United States.

We have identified as of last year approximately 140,000 tons of wheat which was exported through Thunder Bay and did enter U.S. markets.

Senator EXON. And when you talk to the U.S. markets, can you be a little more specific? What and where are the U.S. markets? Mainly in the eastern part of the United States, or did some of this cover back into Minnesota, Wisconsin, Illinois?

Mr. GLENWORTH. We believe almost entirely the 140,000 tons of wheat that went into the United States was of milling quality and went to eastern mills, primarily in the Buffalo area, some in the Massachusetts area.

We have not been able to identify any of that wheat as far as coming back into the Midwest.

Senator EXON. That is durum wheat for the most part?

Mr. GLENWORTH. Primarily durum. There is also some hard red spring involved in that export out of Canada also.

Senator EXON. Now, let us look at it the other way. Was there any wheat from Canada that came down to the border and was transported by surface transportation of some kind across Montana or North Dakota or Minnesota?

And if so, where did most of that go? I would assume most of it would end up in the St. Paul-Minneapolis area, is that correct?

Mr. GLENWORTH. Yes, sir. We have found that there were about 380,000 metric tons of wheat imported from Canada into the United States. Approximately 140,000 metric tons of that was exported out of Thunder Bay and to eastern mills. The remainder came across the northern border into U.S. markets.

Senator EXON. Is there any significant or has there been any significant movement of Canadian grain of any type south across the United States to our Gulf ports?

Mr. GLENWORTH. No. We have calculated some of the freight rates on that movement and we do not believe that that would be economical at all for the Canadians, based upon their export rates either to Thunder Bay or to Vancouver, the use of U.S. rail transportation at approximately five times the cost of Canadian transportation, in conjunction with transshipment in Minneapolis to barge lines. We do not think it would be economical at all.

Senator EXON. Some of the grain—you referred to the Thunder Bay grain, it was mostly durum wheat for the most part from your figures, and most of that went to milling interests in the eastern part of the United States.

What has been the general movement of less quality wheat from Canada? How has that customary entered the United States? Does any of that go through the Thunder Bay port, or does that more or less come across the border at some point and end up in St. Paul-Minneapolis or some area like that?

One of the problems that I think we have looking at transportation and looking at the fairness to agriculture in this is—and since Canada has an historic position, as I indicated in my opening statement, of selling at a discount rather than storing, is that movement likely to increase transportation of that type of wheat, as opposed to durum?

Ms. VENEMAN. Mr. Chairman, if I might answer just briefly, based upon what is in the agreement, when you say that Canada has an historical record of selling at a discount, as I indicated in my statement, one of the things that this agreement does do is it has a provision that says that neither party nor any public entity, including the Canadian Wheat Board, will sell to the other country at below cost of acquisition plus storage, handling, and other costs.

So what we have got as a very big benefit, we believe, particularly for our grain producers in this agreement, but other agricultural producers as well, is something in addition to our dumping and countervailing duty laws as a remedy and a protection against selling wheat or agricultural products by things like the Canadian Wheat Board into this market at a very depressed price.

So if anything, we should be more protected against that happening than less.

Senator EXON. Than what the situation is now?

Ms. VENEMAN. Yes.

Senator EXON. That less than milling quality durum wheat that has been shipped into the United States and will likely be shipped into the United States in the future, I guess what you say is that it would likely continue at about the same rate and you believe that we have strengthened our position against dumping for price, with the price subsidy by the government?

Ms. VENEMAN. I think we have strengthened our position in the agreement. Mr. Gomme is here from the grain division of the Foreign Agricultural Service, and if he could I would like him to comment.

Senator EXON. Would you give us your name, please.

Mr. GOMME. Frank Gomme.

Mr. Chairman, I would like to just point out a couple of things. This past year U.S. durum supplies were relatively tight. So you saw millers show more interest in Canadian durum. Consequently, this was a relatively high quality durum that was being brought into, as another one of the people said, into the United States.

If you look at the longer term, USDA's kind of initial observation of the 1988 crop is that we indeed will have probably 25 percent more of our own durum next year. You would believe, have to believe, that with more of our durum, there would be less import demand from Canada.

If you look at 1989, with the acreage reduction program being modified, you can see even more U.S. durum in the '88 or '89-'90 season. So I think we have to believe that this particular year has been kind of unusual in the fact that the U.S. durum supplies are quite tight.

U.S. supplies of higher quality durum wheat have been relatively tight, and much of our domestic inventory was tied up in the farm reserve program or the CCC. And consequently, the mills did import more Canadian durum in the short run. But I would tend to suspect that there will not be the pressure for the mills to import as much in either 1988-89 or 1989-90.

Senator EXON. I am going to interrupt our questioning now and come back to some of these things, because I want to—Senator Melcher has arrived and Senator Burdick has arrived. Senator Melcher, if you would come up here, we would like to get testimony from both you and Senator Burdick.

You talked about this durum wheat. I guess I am not sure that durum wheat, that will be still flowing through the existing port will be subsidized, and I believe, as near as we can figure, that the subsidy amounts to about 50 cents a bushel.

That is still going to flow into the United States. I cannot see how our wheat farmers are going to necessarily be able to compete with that, because it is an established subsidy. Call it what you want, it is a subsidy, and I think the Canadians recognize that.

What makes you think that they are going to be able to, that our producers are going to be able to benefit from what I think will just be an ongoing, if not more intensive, pressure from the Canadian Wheat Board to move more and more of this 50 cents per bushel subsidized grain into the milling sectors of our country, basically in the Northeast part of the United States?

Mr. GOMME. If you look at U.S. imports of Canadian durum in the past, it has normally been inversely related to our own domestic durum supplies. U.S. millers tend to—they buy the U.S. durum when it is readily available, they buy it when it is price competitive.

And if you look over the last——

Senator EXON. Priced competitively, that is the point. I am not sure it can be priced competitively with a rail subsidy. But maybe that is another issue.

Mr. GOMME. I think also benefiting the Canadians would be a very strong international market, where as the growth in international demand continues to expand we have to believe the Canadians would very aggressively seek this international market, too, especially if they find that the U.S. mills can readily meet their annual milling needs by buying U.S. durum, as they have in the past.

Senator EXON. Thank you.

Senator Burdick, I call upon you for any opening statement that you have at this time or questions.

STATEMENT OF HON. QUENTIN N. BURDICK, U.S. SENATOR FROM NORTH DAKOTA

Senator BURDICK. Thank you, Mr. Chairman, for the opportunity to testify here today about the U.S.-Canada free trade agreement.

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I commend my distinguished colleague, Senator Exon, and the members of this committee for holding the hearing to determine the implications of the agreement. I come to lend a North Dakota perspective, since many of our crops are those which are also grown by the Canadians. North Dakota ranks number one in the production of barley, spring wheat, and durum.

I am here to express my reservations about the proposed Canadian free trade agreement. While no single provision is devastating, the overall effect of several provisions could be extremely harmful to the farmers in the northern tier of states.

There are two provisions that particularly concern me. One is the likelihood that the Canadians will be allowed to retain the use of their restrictive import licensing system for wheat. The other is the fact that the Canadians are allowed to continue to use their rail transportation subsidies to bring grain to the eastern ports.

The border for all intents and purposes is closed to wheat and durum flowing north, but the Canadians are allowed to ship significant amounts of durum into the United States. Recently shipments of durum wheat into this country have averaged in the neighborhood of 20,000 metric tons a month.

Why does our wheat not go north? Because the Canadians have in place an import licensing system whereby they do not have to allow any of our grain into their country unless they are suffering a shortage.

Under the agreement, this licensing will only be lifted when the subsidies are determined to be equal between the two countries. However, there is a catch. The method by which the subsidy levels are to be determined is skewed in favor of the Canadians.

Unless our existing wheat programs are changed significantly, this method will continue to show that the U.S. subsidizes to a greater degree than Canada. This will virtually assure that the Canadians will not purchase our wheat, while our market, our larger market, could be potentially flooded by the unrestricted flow of duty-free Canadian wheat and durum.

My other concern is the fact that the agreement leaves in place the eastern transportation subsidies. Currently, shipments to Thunder Bay and other eastern Canadian ports enjoy an average of $17 per ton or 50 cents per bushel rail freight subsidy.

This subsidy is left intact by the agreement. Our United States grain producers are concerned about the effect these subsidies will have on their ability to compete in their own markets, since most Canadian grain that is shipped into the United States comes through the eastern ports.

This grain has a competitive advantage over the U.S. spring wheat and durum in East Coast and Northeastern U.S. markets because transportation costs are significantly less for the Canadians.

Mr. Chairman, I cannot understand why the Administration negotiated solely to eliminate the Western Grain Transportation Act rail subsidy and failed to address the eastern subsidies. I hope that the Administration is able to answer this question for this committee today.

Senator EXON. Thank you very much, Senator. And we hope that your schedule allows you to stay around. We are going to questions and I would be glad to have questions from either you or Senator Melcher, who I am very pleased to recognize at this time.

Senator Melcher.

STATEMENT OF HON. JOHN MELCHER, U.S. SENATOR FROM MONTANA

Senator MELCHER. Thank you very much.

Montana has about 800 miles of common border with Canada. We are very much familiar with our Canadian neighbors and very much friends. But the so-called free trade agreement is not very friendly to some of our producers, and they include: energy, we have some energy problems that we will not discuss today; and some problems about minerals, which I will not discuss today either.

But I will talk about grain exports. The free trade agreement it seems to me would create another hurdle for exporting American grain. One section of the agreement deals with grain exports and it is that section which is the hurdl. We will not subsidize exports without taking into consideration prejudicial effects that it might have on Canada.

I do not think we export any wheat but that it has some prejudicial effect—I use those terms because that is the term that is used in the treaty—on the opportunity for Canada to export the same amount of wheat.

There are two areas of concern for transportation in relation to potential grain movements by the Canadians with the free trade agreement if it was in effect. One of those areas of concern is in the Midwest and the other is a Montana matter.

Briefly, the first one, in the Midwest, concerns the Mississippi River. The scenario could be that the Canadians would use barge traffic on the Mississippi to move their grain south to the U.S. gulf for shipment to southern hemisphere or European markets.

In a nutshell, the European movements are possible because the rates there—and I am talking about Manitoba, Saskatchewan, and Alberta—from there to the Gulf are favorable when compared to the St. Lawrence Seaway. The southern movement, such as to Venezuela, would work for Canada as long as wheat could be put on the river competitively.

But I believe that this is a matter that would be better discussed by people such as your own Nebraska Wheat Board, Mr. Chairman, because you do have access to the Missouri and Mississippi barge transportation system. After all, wheat is a fungible commodity.

Companies who are engaged in exports are going to buy whatever wheat is the most attractive in price and can be delivered to wherever the ship is at the cheapest price.

Now, our concern is a little bit different than barge traffic. Montanans would be concerned for instance, if they see Canadian grain move south across into Montana to northern tier elevators. And this grain could be used to displace Montana wheat, not only using the elevator space but also very valuable transportation capacity.

We are now engaged this year for the first time in bidding, bidding on whether or not we will have a rail car to transport wheat. So this is a serious concern for us. What would this free trade agreement mean in that relationship?

Now, there is not enough export capacity in the Northwest, and our wheat that is going to be exported almost all goes to the West Coast. And then what if the transportation were taken up by moving Canadian wheat? Then we would be at a disadvantage.

The other part of it is this, that what facilities are in the Northwest for export are better in the United States than they are in Canada. Canadians say that. They know their system better than we do, and they say that ours is better. But shipping wheat west out of Montana and getting it loaded on a ship is one where you wait your turn when there is heavy grain movement, and that could occur almost any time of the year, whenever there is any demand on foreign sale from the Northwest.

All in all, what we are talking about in the free trade agreement is not advantageous to agriculture in the United States. There is no way to describe it, no way to masquerade it to say, well, this helps American agriculture. That is not the case.

There are so many doubts in it on how much it would harm American agriculture that I think it would be very prudent not to adopt the free trade agreement and to start over. With whatever advantages there are, they are not for American agriculture.

It places us in a disadvantageous position, where it is tough enough now. We are only moving wheat again in export simply because we use the Export Enhancement Act. We have enough problems with our own people getting the Department of Agriculture to make an offer, make a tender on export enhancement.

There has not been an export enhancement program offered for Venezuela yet. So for six or eight months we have been crying to the Department of Agriculture to offer one, so that we get back part of the market we have lost.

In the meantime, who has made the deal? Canada. Have they made it at some sort of a price that is better than what we would make it at? No, through export enhancement we could have had at least a portion of the sales. But we have had very little. We had about 200,000 tons.

We used to have about a million tons every year with Venezuela. We would like to get that back and we are entitled to get it back.

Our farmers are not producing this wheat at high cost. They are very competitive. Where our farmers cannot be competitive is one government to the other. They cannot be competitive against another government that is going to subsidize the sale while we refuse to make the same offer at a competitive price to another government, such as Venezuela.

So all in all, I do not find favor with this. And I think there is a serious concern that we ought to confront in the Senate when the Treaty is before us. I think from my discussion, from what I have heard from the trade ambassador, and everybody connected with it, it is too late to change it.

Well, if it is too late to change it I think that there is only one vote, and that is no. I am not enamored with the idea that we are going to put something in as sort of a sidebar agreement and say, well, the Treaty really, it really does not mean what it says.

The prejudicial effect from the export of U.S. wheat will always occur when Canada has a surplus and we are after the same customer. Naturally, everybody is after the same customer.

Senator EXON. Thank you, Senator Melcher. I am pleased to recognize Senator Burdick now for a question, and then I will be glad to entertain an opening statement or any questions from the Senator from South Dakota who has just joined us. And thank you for coming, Senator Pressler. Senator Burdick?

Senator BURDICK. Mr. Chairman, I cannot understand why the Administration negotiated to eliminate the Western Grain Transportation Act rail subsidy, and failed to address the same thing for the eastern subsidies.

What is the difference between the western subsidies and the eastern subsidies? To the farmers it means 50 cents a bushel. Why it that different?

Ms. VENEMAN. Senator, there is a major difference between the two subsidies.

As I explained previously in my testimony, in the agreement, we negotiated, we did not deal with domestic subsidies or across-the-board subsidies, like our deficiency payments, for example, where you get it regardless of where the wheat is going to be sold.

What we dealt with in the agreement were export subsidies or subsidies which are conditioned upon the exportation of the product. And it was agreed that neither country would use export subsidies for product exported to the territory of the other party.

That, for example, means we would never use, even though we do not know, export enhancement program to export products to Canada.

On the Western Grain Transportation Act, the WGTA was enacted in 1984, and previously the Crow's Nest Pass Act has been in effect since 1897. And that is the subsidy that is provided to all product, qualified product, that goes to Thunder Bay. It is not conditioned on what is going for export versus what is going to stay in Canada.

On the other hand, the WGTA in 1984 provided subsidies for product being exported through West Coast ports. And the U.S. was an eligible destination for that export subsidy. So what we achieved in this agreement was the elimination of the export subsidy aspect of the WGTA.

That is, the western port was an export subsidy conditioned on export. So it was an export subsidy. And so consistent with the overall tenor of this agreement, that provision on the western ports was eliminated.

Now, the agreement, there should not be a misunderstanding about the fact that the agreement does not say Canada can forever and ever maintain its export subsidy through Thunder Bay. I mean, it is not, excuse me, that is the wrong term. Its transportation subsidy through Thunder Bay.

It simply does not address the issue of transportation subsidy through Thunder Bay. It is still a subsidy, it is a domestic subsidy. It can be addressed through countervailing duty laws, or normal trade remedies.

It will be one of those subsidies that certainly has an impact on trade. I would think that it would be addressed through our multilateral negotiations in the Uruguay Round. So I know there has been a lot of confusion among various interests about this difference in why certain transportation subsidies were eliminated. But there really was some rhyme and reason to it, you might say.

Senator BURDICK. Well, in all due respect, I understand what you say, but you have not answered my question.

You eliminated the subsidies on the western transportation area, but you kept them on the east. Why did you not eliminate both east and west?

Ms. VENEMAN. Well, as I said, Senator, the east coast, the Thunder Bay subsidies, are subsidies that have been in existence since 1897, and they are not export subsidies. They are across-the-board domestic subsidies. They are like a deficiency payment.

It does not matter where wheat is going for someone that gets a deficiency payment. They get that deficiency payment regardless of whether or not it is going for export or it is not. That is the same way that the Thunder Bay, the eastern subsidies.

On the West Coast, it has to be for export. You know, it is important to keep in mind, without this agreement, all of the transportation subsidies, including those to western ports, would remain in effect.

And, as I said, it certainly is not as if we said, you can forever and ever keep the subsidy. It just was not addressed in the agreement, because it is a domestic subsidy through the east coast.

Senator BURDICK. But you have not told me why, the logic and the reasoning, why it should be different between east and west?

Why should there be a 50 cents per bushel in the east and nothing in the west? Why? What is the difference to the Canadian border, whether it is 1892 or 1492? Why should there be a difference?

Ms. VENEMAN. The Western Grain Transportation Act makes a distinction within the Act.

All of that product that was transported over the old Crow's Nest Pass Act subsidy provisions have remained in effect, because it is an across—in other words, if the wheat is going within Canada, it goes to Thunder Bay and then it goes across the Great Lakes into Quebec and Ontario provinces, see that subsidy is available regardless of where it is going. If it is going to Canada or if it is going for export.

So it is not conditioned upon export. So it was not a subsidy that was eliminated by the agreement.

Senator BURDICK. Maybe I do not make myself clear. Why is there a difference between east and western Canada in handling the shipments? Why should there be a difference?

Ms. VENEMAN. Canada has traditionally made that distinction themselves.

Senator BURDICK. Well, I mean, 50 cents a bushel to us is competition.

Mr. MERKIN. Senator, maybe I ought to try as a non-agriculture expert.

As I understand it, the way the agriculture provisions of the agreement were negotiated, it was recognized going in that we could not deal with general subsidies in the agricultural area. So-called domestic subsidies.

Because for the U.S. and Canada, to begin to dismantle our domestic programs in just a bilateral negotiation would have left us vulnerable to competition, say, from the European Community that are not part of this negotiation.

So we did not attempt in this free trade agreement to dismantle domestic programs in the agricultural area that had general applicability. However, we did agree to eliminate exported condition subsidies between the two countries.

And the way the Canadians have drafted and implemented their Western Grain Transportation Act, the western shipments got an export conditioned subsidy. So those were dealt with by the free trade agreement.

The eastern shipments were generally available. Therefore, they were not covered by the discipline of the agreement. I do not know if that helps.

Senator BURDICK. You simply restated what the situation is. Grain that goes into a port in the state of Washington, across the border to Seattle, wherever it is, carries no subsidy. Grain that goes to Duluth has 50 cents on it. Why should there be that difference?

Mr. MERKIN. Well, I hate to keep repeating ourselves.

Senator PRESSLER. If I may add a subquestion. As I understand it, if there is a farmer in North Dakota on the border, and a Canadian farmer in Canada, and they both grow a bushel of wheat, and they both ship it east, the fellow from Canada will be 50 cents better off. Is that correct?

Senator BURDICK. That is right.

Senator EXON. I think that is a very fair question. You are shaking your head, no, Ms. Veneman. I would like to hear from you. Did you hear the question?

Ms. VENEMAN. Yes. The question is——

Senator PRESSLER. One lives in North Dakota, the other lives in Canada, a half mile apart. Their first name is each John. They are equal in all ways.

Senator BURDICK. Olson.

Senator PRESSLER. John Olson. They have the same name. The farmer in Canada sends his grain east toward Crow's Nest or Thunder Bay, and the farmer in North Dakota sends his grain east to wherever, Chicago, Minneapolis, Duluth, someplace.

Is it not true that the Canadian farmer has a subsidy of 50 cents a bushel that puts him at an advantage right from the start under this Canadian-U.S. trade agreement?

Ms. VENEMAN. First of all, the U.S.-Canada free trade agreement has absolutely nothing to do with your question. The situation would remain, it is totally unaffected by the FTA.

Senator PRESSLER. Well, whatever it has to do with. First of all, do I not understand that?

Ms. VENEMAN. That is just to set the basis that we are dealing with a question that does not have anything to do, that is affected in any shape or form by the free trade agreement.

But what you are doing is assuming that both of those farmers on each side of the border are in an equal position in the first place. Each side of the border has different types of subsidies that they give their growers.

It is not as if they are starting from a position of equality and Canada gives a 50 cent a bushel subsidy and we do not.

Senator PRESSLER. No, but our subsidy is counted in the agreement. Their subsidy is not. That is the whole point.

Ms. VENEMAN. Excuse me?

Senator PRESSLER. Is not our subsidy considered in the agreement and their subsidy is not?

Ms. VENEMAN. No, no, no. None of our domestic subsidies, none of our deficiency payments, all of those across-the-board domestic subsidies on both sides of the border are not addressed in this agreement.

They are simply not dealt with, except insofar as the agreement says that all, that both countries agree that all trade-distorting subsidies should be eliminated, and that should be addressed in the Uruguay Round.

There is a recognition, as Mr. Merkin just said, that you cannot deal with domestic subsidies in a bilateral agreement. Because of the impact on the EC and other world markets. And we have just dealt with export subsidies between the two countries.

Senator MELCHER. I think the point you are missing, you do not want to count that as an export subsidy, but if the grain is bound of export it is an export subsidy.

Ms. VENEMAN. No, because, would you say that a deficiency payment is an export subsidy if it is bound for export?

Senator MELCHER. No, I would not, because we have a different type of subsidy on export. We have the export enhancement program, which is our main subsidy.

Ms. VENEMAN. That is right. And, you know, the export enhancement program and the Western Grain Transportation Act through western ports are the same type of program. They are both conditioned upon export.

The deficiency payment and the transportation program through Thunder Bay are both the same kind of program.

Senator MELCHER. I think the point is, and the reason you are not answering Senator Burdick, is that you do not want to count this in the mixed bag of a subsidy for export.

But it certainly has to be looked at as a subsidy for export if that grain indeed is going to be exported, and most of it is going to be exported. They are probably in worse shape than we are. Two out of three bushels we have to export. And I think it is three out of four they have to export. Am I correct?

Mr. GOMME. As much as 75 percent to 80 percent.

Senator MELCHER. So a bushel of grain going to Thunder Bay is most likely going to be exported.

You are in a pattern, first of all, you are assuming that somebody is going to eliminate subsidies. I do not think we are going to eliminate subsidies under our system. We are just going to let the price go up to where there is not any subsidy any more, where it ought to be.

That is advantageous to the Canadians. And we are in a position, since we produce more surplus than anybody else, it is what surplus we have that determines what the price of wheat is.

If we get rid of our surplus, and we are getting rid of it now under the export enhancement program, the price will come up. If it comes up high enough, there will not be any deficiency payment. You will not have to talk about subsidizing American wheat. We will just get priced right out of the market.

Senator EXON. Senator Pressler, do you have an opening statement or any questions?

OPENING STATEMENT BY SENATOR PRESSLER

Senator PRESSLER. Mr. Chairman, I want to thank you very much for holding this hearing.

Mr. Chairman, thank you for scheduling this hearing on the effects of the United States-Canada Free Trade Agreement on Agricultural Transportation. This is an important issue which needs to be examined closely.

For years, United States agricultural interests have been concerned with Canada's railroad subsidy for transporting agricultural commodities. Railroad transportation costs are a major factor in the export price of commodities. This is especially true for South Dakota or Nebraska wheat and corn.

It is my understanding that the United States-Canada Free Trade Agreement allows Canada to maintain its "Crows Nest" subsidy. I have been contacted by South Dakota wheatgrowers about this provision. Canadian wheat transportation costs would be approximately 40- to 60-cents less per bushel than comparable United States shipping costs. The wheatgrowers point out that this gives Canadian wheat exports an unfair advantage.

We need to determine the effect of the "Crows Nest" subsidy on U.S. farmers and agricultural exports before the agreement is approved.

Mr. Chairman, I look forward to hearing the witnesses.

It is very proper for the Subcommittee on Transportation to be looking into this, because this has been a main concern of the wheat growers and the farmers in my state regarding this Canadian-U.S. trade agreement.

And I think that the western Senators have to stick together, because unless this is changed, I would have a very hard time voting for the agreement, and I would even join in an effort to block it.

I guess the way these questions are going back and forth here we are talking on different wavelengths, sort of, with regard to deficiency programs. It is not an export subsidy, whereas this is a 50 cents per bushel on shipping costs, which becomes essentially an export subsidy.

I think we are talking about two different things here. But that is the way I see it.

Senator EXON. Thank you. I will advise the panel and the succeeding panel, that there may be some questions that we will submit to you for the record, which we would appreciate you all answering as promptly as you can so that we can complete the written record of this particular hearing.

And thank you very much, Senator Pressler. We appreciate your keen interest in representing the interests of the farmers in your state. We have a farmers panel which is going to follow, and if possible I know that you will stay as long as you can to hear that.

Let me try to back up just a little bit. How much wheat do we export to Canada? Any?

Ms. VENEMAN. No. Not right now, because of the licensing system.

Senator EXON. Because of what?

Ms. VENEMAN. They do have a licensing system. One thing the agreement does is that it creates a system by which the licensing system in Canada will be eliminated for U.S. grains when the subsidy levels become equivalent in the two countries.

So that one of the benefits of the agreement is that, even though Canada has its licensing system and we do not, we are not now allowed to get grain into Canada, we do, for wheat, oats, and barley, have a system in the agreement to provide for the eventual opening up of that market.

Senator EXON. That is fine. I think that is what I wanted to know.

Let me follow up with the next question, unless you had some other key point. My question was, do we ship any wheat to Canada, and the answer is no, for whatever reason. We might have a chance to, you believe, I think, in the future, although that remains to be seen. Is that not correct?

Ms. VENEMAN. We have provided a system in the agreement for that to happen, when the subsidy levels become equivalent. For oats, that is probably going to happen upon implementation of the agreement.

Senator EXON. Okay. Now, you said that we ship agricultural products to Canada, and I think you mentioned fruits. Is that right? Is that our main export to Canada, of agricultural products?

Ms. VENEMAN. We have processed products, fruits and vegetables, corn. We ship about 500,000 metric tons of corn up there. We ship a number of agricultural products. As I mentioned in my opening statement, our agricultural trade balance is a positive one with Canada.

Senator EXON. Is a positive one, but we have no wheat going up there. So it is positive in certain areas. That is why I think, now we do ship some corn up there because they do not raise corn. I suppose they have to have it for cattle feed more than anything else. Is that right?

Ms. VENEMAN. Yes.

Senator EXON. What percentage of our agricultural shipments to Canada are products grown in the upper Midwest? We do not raise an awful lot of fruit in Nebraska. I do not know whether they are big fruit producers in Montana or North Dakota.

Senator BURDICK. Bananas.

Senator EXON. Excluding bananas, which we are not big in in Nebraska, what percentage of our agricultural products are agricultural products that are grown in the middle west or upper Midwest?

Ms. VENEMAN. We have a fair amount of pork and poultry. With a large common border between the two countries, anything that is grown along that common border traditionally has had a lot of cross-border trade. Granted, it does not happen in wheat.

If I might, I would like to make a comment about the concern that all of you seem to be expressing about wheat. There was a large degree of concern, and in fact opposition from the wheat growers, about this agreement.

We spent several weeks working with the wheat growers to try to come up with acceptable language to be included in the statement of administrative action.

Senator EXON. And you are trying the same tactics, are you not, now, with the corn growers?

Ms. VENEMAN. I do not understand.

Senator EXON. Are you not trying to also satisfy the concerns of the corn growers now?

Ms. VENEMAN. Well, that is correct, although some of the concerns are much different. It is a much different situation.

The point I wanted to make, though, is that we have spent a good deal of time working with the wheat growers association in putting together a statement of administrative action which they have indicated to us does address most of their concerns. And they have agreed to withdraw their opposition to this agreement.

Senator EXON. That is in the national wheat growers, right?

Ms. VENEMAN. Yes, it is. And they do have a letter, which if you were going to keep the record open, as you indicated, we will submit for you as well——

Senator MELCHER. Mr. Chairman, might I interrupt there for a moment, because we had the National Association of Wheat Growers testifying yesterday, and the letter, as I read it, is not an endorsement of the trade agreement.

And I asked them that, am I misreading your letter? And the answer was, you read it correctly, Senator. It is not an endorsement. And they have, they maintained some apprehensions.

I think it is fair to say that the letter says that you have made some progress. But they are like I am, I believe, rather apprehensive that what is in the Treaty and the language of the Treaty is what is binding.

And the way the next administration would be expected to follow it, and what is in this agreement, where there are conflicts with what is clear in the Treaty, then what is the effect? It is like Congressional intent, and what is the language of the law?

When one conflicts with the other, the language of the law, the statute, generally prevails.

Ms. VENEMAN. There certainly will be no conflict between what is in the statement of administrative action and what is in the agreement.

Senator MELCHER. Well, that settles it, because what it says here, if you are going to export something, and it has a prejudicial effect on Canada, then you should not do it. That takes out the export enhancement program.

Ms. VENEMAN. Senator, if I could address that concern, because I know you expressed it yesterday as well as the day before.

As I indicated in the Senate Agriculture Committee, that provision does nothing more than to maintain and assure that we will maintain a practice that we currently have, and that is we do take into account the export interest of countries like Canada and Argentina in making our decisions on the export enhancement program.

That provision does nothing more than to ensure that we will continue to do that practice.

Senator MELCHER. I do not believe that it states that. Now, I am fairly good at reading the English language, and it just does not state that.

It states that, in four of 701, it says, each party shall take into account the export interest of the other party, and the use of any export subsidy on any agricultural good exported to a third country.

So, what it in effect says is that here is another little hurdle that you have to get across before you have an export enhancement program, or before you make it Canada.

Ms. VENEMAN. No, it is not an extra hurdle, Senator, because it is simply a restatement of what we already do.

Senator MELCHER. That is not factual in my experience, and I have had as much experience around here with the export enhancement program as most people have in Congress.

The fact is that every sale would have a prejudicial effect on Canada because you are after the same customer. This is a fungible product; whether the company gets it from Canada or the United States, the export company really does not care. It is our export enhancement program that has meant that the company gets it from U.S. producers. This impedes that and interferes with it and creates another hurdle.

Senator EXON. Let me follow up, and then I will give you a chance to answer because I know you want to.

Let's get right into the heart of this matter. This is not directly connected with surface transportation, but it is going to move through surface transportation channels. A bushel of wheat enters the United States, and somehow, as much of it has in the past, will find itself in an

elevator somewhere, most probably in the states along the Canadian border or the next row of states right below that, and then that particular elevator ships out that bushel of grain making up the carload, three bushels of grain, wheat produced in one of our states. So a fourth of that trainload is going to go on down to New Orleans, to be shipped out under the export enhancement program.

Is it possible that with increased flow of wheat into the United States, that taxpayers would be subsidizing through our export enhancement program Canadian produced wheat?

Ms. VENEMAN. First of all, I think that it is important to recognize that this is a concern that would be unaffected by the agreement. The agreement is not going to make it any easier, particularly, to get increased wheat in here than it currently is.

Senator EXON. Well, I hope you are right on that, but that is not the way the Canadians look at it, and I have got evidence of that. In other words, what you are saying is that yes, we will be using some taxpayers' money to use export enhancement——

Ms. VENEMAN. No, I have not even addressed that part of the question yet. Please do not misread what I am saying.

Senator EXON. Okay.

Ms. VENEMAN. First of all, it is illegal to use export enhancement money for any imported wheat into this country; it is illegal, okay?

In addition, most of the Canadian durum that is coming in here is a high quality that is being bought directly by the millers for use in the mills. So from a practical standpoint, it would be unlikely to happen.

But I think I will ask Frank if he has an additional comment on that question.

Mr. GOMME. As far as we can tell, Senator, the bulk of the wheat that would be coming in would be contracted by a specific mill, and somebody would be brokering it from the U.S. border down. So it is highly unlikely, because number one, the quality that the miller wants, the specifications on it, that that wheat would somehow come in from Canada and then be shuffled off into the export market as opposed to coming directly through and almost identity-preserved right from Canada, the Canadian border into the U.S. and on to the mills. So we think it is very, very unlikely that any of that really very good quality wheat that the U.S. pasta industry has bought this past few months will go anyplace but to a U.S. mill.

Senator EXON. Then what you are saying is that there is little if any wheat, even under certain market conditions, that isn't durum wheat that has been contracted for by a miller. There isn't any significant amount of other than durum wheat from Canada coming down into the United States.

Mr. GOMME. No, sir. If you look, this year, as I mentioned earlier, is somewhat unique because if we go back to 1986–87, U.S. wheat marketing year or back into earlier years, you found very little durum coming in. In fact, looking back at actual Canadian statistics, export statistics to the U.S., only in a couple or three years have you seen any durum coming in. The bulk of it has normally been eastern soft wheat coming

across the border into the northeast, Massachusetts into the Buffalo mills, or you have seen some Canadian western red spring come through and some blending wheat into our northeastern mills.

Senator BURDICK. Mr. Chairman, is any United States durum going to Canada?

Mr. GOMME. No, sir.

Senator BURDICK. It is the finest durum in the world, it is not going to Canada, but their durum is coming down here, is that right?

Mr. GOMME. It is the problem with Canadian restrictions on taking U.S. durum in there, even in short Canadian supply years.

Senator BURDICK. Restrictions. Why? Quality? Why restrictions?

Senator EXON. Protection.

Mr. GOMME. Protection.

Senator BURDICK. In other words, they can ship durum into the United States but we cannot ship durum into Canada, it is just that simple?

Mr. GOMME. Yes, sir.

Senator EXON. Senator Pressler?

Senator PRESSLER. Will that change under the Canadian-U.S. Free Trade Agreement?

Ms. VENEMAN. That is the existing system, and under the U.S.-Canada Free Trade Agreement there is provision for elimination if the licensing system on wheat, oats and barley when the subsidy levels for those two grains become equivalent.

Senator PRESSLER. When will they become equivalent? Who will determine that?

That will be never.

Senator EXON. Look, the obvious answer is probably never, is that not right, under the formula?

Ms. VENEMAN. Not necessarily. The formula—well for oats, our preliminary calculations show that for oats, the licenses will probably come off immediately. For barley, it is a little less clear. It is not really clear at this point. For wheat, our subsidy levels in the U.S. clearly are higher than they are in Canada, and so we would not see an immediate elimination of the licenses for wheat under the formula that is contained in the agreement.

Senator PRESSLER. Then our export subsidies, it is true that our deficiency payments are. In any event, I can see the pattern, they are never going to take U.S. durum in Canada. They say they might, but I have been around long enough for 14 years around this town, and I can promise everybody that they will not.

But anyway, let me ask another question just for the record. And I want to have in the record that it is really not directly related, but I just want this to be answered either by you or by someone. I am very opposed to the ethanol provision in the trade bill which would allow European wine and alcohol to be shipped through the Caribbean Basin into the United States ethanol duty-free.

Does the U.S.-Canada Free Trade Agreement prohibit the transshipment of ethanol through Canada?

Ms. VENEMAN. I am going to ask Dan Brinza from our General Counsel's office to talk about that issue, the transshipment issue. I think it would be precluded.

Mr. BRINZA. The name is Dan Brinza from the General Counsel's office.

The rules of origin in the agreement, the agreement contains rules of origin for what is a Canadian good and what is not a Canadian good for purposes of determining what qualifies for the benefits afforded by the agreement.

Under those rules of origin, transshipment would not make it a product of Canada. It specifically will say that anything transshipped through Canada, and similarly, anything transshipped through the United States to Canada do not qualify for the benefits of the agreement.

Senator PRESSLER. So they would not be able to do this, what they could do under this trade bill?

They can transship European cheap wine into the Caribbean and change the ethanol and bring it into the United States, which we are very concerned about in the trade bill that is now before——

Mr. BRINZA. That is a slightly different issue from transshipment. Transshipment means they bring it in and ship it to their country. This particular case we are talking about, if they bring it in and do something to it to take the wine and turn it into ethanol——

Senator PRESSLER. But that will not happen. That will not affect the ethanol in that way.

Mr. BRINZA. Under the provisions of the agreement, actually, the agreement currently provides under the rules of origin that if they bring in feed stock, that is, cheap wine or something like that, it could become a product of Canada if there is sufficient transformation under the agreement.

Senator PRESSLER. So you bring the cheap wine to Canada, transform it into ethanol, and bring it into the United States.

Mr. BRINZA. Yes. However, Canada does not currently have an ethanol plant in existence.

Senator EXON. Yes, but they could, they could, couldn't they?

Mr. BRINZA. I should also point out Canada does have a very high duty in place currently on wine, so therefore, it would be uneconomical to try to do that.

Senator EXON. Under the present conditions.

I think the answer to the Senator's question which was a good one, is that if they change their laws, and if they change their import law, and if they had processing plants, they could indeed do in Canada what the Senator is concerned about with regard to the ethanol imports in the United States under the trade bill.

Is that a fair statement of the situation?

Mr. MERKIN. Mr. Chairman, if I could jump in at this point, we are very aware of this potential problem that has been brought to our attention by the corn growers. Unfortunately, the gentleman that has been working with the corn growers from our General Counsel's office at USTR is not with us today, but we would be glad to report back to you this week on how those discussions are going.

Senator PRESSLER. If we could have a thorough answer for the record, a thorough answer for the record, if we could get that over here tomorrow, could you hand-deliver it to the committee tomorrow, a thorough answer considering all of the avenues of this?

Mr. MERKIN. Absolutely.

Senator EXON. It would be perfectly all right with me if you did not get it over here that soon, but I would certainly hope that you would go along with the request of my colleague from South Dakota.

The reason I would not rush, if I were you, I think he wants to use it in argument on the floor on the override, but that will not be until week after next. So there will be plenty of time.

Senator BURDICK. I am also interested in the ethanol question, so would you kindly send me a carbon copy of whatever you send to the Senator?

Mr. MERKIN. I would be glad to.

Senator EXON. Along this line of questioning, which I think is a very important one, is it not true that the United States Trade Representative agreed to allow this ethanol to possibly sneak in if the right set of circumstances came to pass, and th right set of circumstances are, number one, a reduction in the import of cheap wine into Canada and their production.

Is it not true that the United States Trade Representative put that in the measure, and it is now only being looked at because of opposition from the corn growers?

Mr. MERKIN. If I could, Mr. Chairman, it makes it sound like we did something sinister.

Senator EXON. I do not mean you did anything sinister. He did not do anything to prevent it, did he?

Mr. MERKIN. The agreement has what we believe are some very tough origin requirements so that the products that get preferential treatment should be of significant product of either country. This particular issue we had not been aware of until very recently when the National Corn Growers brought it to our attention.

The basic rules of the agreement would have, I believe, depending upon how this was done, that they could do substantial transformation of the wine coming into Canada, into ethanol so that it would qualify as a product of Canada if the right economic conditions were to prevail.

Since it has been brought to our attention, and that has only been within, I believe, the last week, we are, as I indicated, working on it. We will have to you a report tomorrow on our efforts in that regard.

Senator EXON. Let's return to the matter of making sure that we do not use export enhancement to subsidize Canadian grain.

You said that it is against the law, which I agree, to do that. It would be possible, though, would it not—I am not saying that it would happen, but it would be possible for Canadian grain to be mixed in with American grain just like we have some nongrain materials mixed in with grain today, which has caused us a great deal of concern with regard to clean grain.

You do not believe that, evidently, that this Free Trade Agreement is going to cause further Canadian wheat, durum or otherwise—we keep talking about durum.

Am I correct in assuming that there is a considerable production of other than durum grain in Canada?

Mr. GOMME. Yes, sir, Senator. In fact, durum, the Canadians produce more Canadian western red spring, which is very comparable to our hard red spring, than they do durum, but if you look at this past year, for example, we have imported very little of the Canadian western red spring, around 40,000 tons or so, and that reflects in part the economics here in the United States where we have got very, very large supplies of our own, supplies readily available through our millers.

Our durum supplies have been quite small this year, and the quality of some of it was not as good as it had been in other years, and this provided a hopefully short term window for the Canadian durum to come in. Next year we expect a larger crop, even a bigger crop thereafter. So you would expect to see much more of the U.S. durum going both into the export market, available to our mills, available to our own sector.

Senator EXON. We keep talking and getting back to our mills.

Is it your conviction that from the standpoint of transportation and from the standpoint of agricultural competition, this Free Trade Agreement would not encourage more Canadian wheat of whatever type into the United States?

Ms. VENEMAN. That is correct.

Senator EXON. I will simply cite "Pro Farm Magazine," which is an agricultural magazine in Canada. On page 25 of the August issue they are talking about some of the things that we are talking about, and I want to read from that magazine, on page 25. "Once again, the use of the Mississippi Alternative"—and I will say that that comes up a little bit more, but this whole article, there is a chart in here, St. Lawrence route versus the Mississippi route.

Folks, there is not any question but what the Canadians are looking at this agreement as a chance to ship more wheat into the United States or through the United States, which is one of the reasons that I wanted this hearing to see what it is going to do to our transportation system.

Once again, and this is from the article, "Once again, the use of the Mississippi Alternative would be dependent on cleaning grain to Canadian export standards before it leaves the prairie. Grain would be railed to Minneapolis via the Soo Line Railway or the Burlington Northern Railway. At Minneapolis it would be loaded on a barge and would be towed down the Mississippi to New Orleans where it could be transferred to ocean going vessels.'

On down in this same article it says "In addition, the Crow benefit transportation subsidy does not apply to grain shipped to ports outside Canada. Under present regulation, the cost of moving grain through Mississippi may be lower, but the farmer would have to pay virtually all of the freight costs. This would increase the direct cost t the farmer. In order to take advantage of the lower Mississippi cost the Crow benefit would have to be applied to Canadian grain moving through the United States. Alternately, the subsidy would have to be charged so that it is paid directly to the farmer. He could then use it to move the grain as he sees fit."

All I am doing is to say that I am sure—and here is the chart, what it would cost Winnipeg to Thunder Bay, Winnipeg to Minneapolis, and what it would cost. I am sure there are movements already up there to see this so-called Free Trade Agreement to move additional Canadian wheat to and through the United States which I am not sure is in the best interests of American agriculture, especially the wheat producers.

And I just want to keep raising these alarms.

Do you have concerns about this, Mr. Merkin?

Mr. MERKIN. If I could, Mr. Chairman, I will comment generally, and then I assume some of these experts understand the facts and figures better than I.

I believe the situation which is being described there would exist whether or not we have a Free Trade Agreement. That is, the situation on the Mississippi River is not affected by this agreement. If it is attractive for Canadian wheat to come down the Mississippi for export offshore, it is not affected one way or the other by the Free Trade Agreement.

Others can comment on whether it is economically viable for that to happen. That is not my area.

Mr. GLENWORTH. We would have some difficulty in understanding how the Canadian grain could be moved economically through the Twin Cities on the inland waterway system to export markets via the Gulf, the U.S. Gulf. We have checked within the last week, and prevailing barge rates right now are about $12 per metric ton. The export rail rates using a point in the central Prairie provinces to Vancouver are approximately $5 to $8 per metric ton. Those are subsidized rates, of course, approximately 20 percent of Canadian cost, and when you factor in currently adjustment for the Canadian dollar, those rates are very, very cheap.

It is difficult for us to understand how the grain could move through U.S. export channels, and by far the most economical export channel is rail to the inland waterway system and out the Gulf. It is difficult for us to understand how that can occur.

Senator EXON. Let me tell you how I think it might occur, and this is one of the things going on up there which has been related to me.

The loss of western subsidy which is going to be, I would think, a detriment to some of the wheat farmers that ship to the west, the loss of that subsidy might well open up the possibility for shipment south across the United States, and maybe that would be whether the Free

Trade Agreement went into effect or not, and I think that is what this particular article is addressing, in other words, what is going to happen when these changes are mandated, if the Free Trade Agreement is ratified, and I would submit without objection at this time page 25 of the Pro Farm Magazine of August 1987 and ask that that be printed at this point in the record.[1]

Let me read you the last part of that, to try and bring this to a head of what my concerns are. And maybe they are not well founded, but I think it is something that we should address.

The last paragraph on this particular page says "One of the most important areas for these alternatives," and when they talk about alternatives, the are talking about going the Mississippi route, "can play a role in meeting the needs for surge capacity. At certain times our handling and transportation system is pushed to the limit. It would be very expensive to build new internal structures to meet these short term capacity requirements. Diverting some of our shipments to alternate routes and facilities could be a cost effective way of ensuring the maximum amount of grain is moved at the lowest possible cost."

All I am saying, folks, I think there is some concern here, and I am not sure that we should necessarily pooh-pooh it.

Maybe it has nothing to do with the Free Trade Agreement at all, but if we are going to have free trade, I suspect that we are also going to be greasing the skids for more movement of Canadian grain to the United States, which I am not against per se, but I certainly am concerned about what ill effect it might have on our farmers, given the present situation where we simply do not have enough hopper cars, for lots of reasons, not the least of which is the turnaround time that we have, particularly at the Gulf ports.

So all of these blocks have to fit together, and I think it well that when we are talking about a free trade treaty, that we kind of understand what the other side has in mind with regard to some of this, and I do not happen to think that we are going to be shipping any wheat into Canada—whatever is done with this Free Trade Agreement, I cannot see where we are ever going to reach a place where we are going to be major exporters of wheat to Canada.

I think we should all admit that. There may be other things we can make up. Maybe they can buy more corn from us or grapes or something. I do not know.

Ms. VENEMAN. Senator, we hope to remedy that situation through our Uruquay Round negotiations.

Senator EXON. Through what?

Ms. VENEMAN. Through our Uruguay Round negotiations, through our GATT negotiations in Uruguay.

Senator EXON. You hope to recognize that, but——

Ms. VENEMAN. Remedy, remedy.

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[1] See p. 57

Senator EXON. Remedy that.

Ms. VENEMAN. Yes.

Senator EXON. But you are asking us to approve this Free Trade Agreement before that is remedied, is that not correct?

Ms. VENEMAN. Well, Senator, I think that the concerns that you are expressing are concerns, again, that really are situations that exist regardless of whether or not we have the agreement.

You indicated a concern about wheat not having access to a western subsidy, and therefore moving east.

Senator EXON. Moving south.

Ms. VENEMAN. Okay. Well, our statistics indicate that the Western Grain Transportation Act to the western port subsidy was not used to any great extent on wheat. It is primarily a subsidy that has been used on mill feed and rapeseed meal that has been coming into the United States, and certainly is not something that we suspect will have any effect on the movement of wheat.

So that when you are talking about the possible displacement, it has not been used historically for movement of wheat, so we do not expect there to be some change in transportation patterns as a result of eliminating that subsidy on wheat.

Senator EXON. Are there any other questions or statements that you folks would like to make to amplify anything that we have asked you about?

Mr. MERKIN. No, we appreciate the opportunity to try to address some of these questions.

Senator EXON. We recognize it is a complicated field, and that is why we have been asking you about it.

I have one or two final thoughts. To be fully effective, as I understand it, there would have to be some follow-up action by the other governments of Canada, and while you are here, I would like to have you try and clarify this particular part for me, if you will.

As I understand the Canadian system of government, the actions of the federal parliament or the federal government, in this case, does not necessarily bind the provincial governments.

Now, if that is true, which I think it is, is it not fair to say that to be fully effective, even when we sign off, if the Senate approves this treaty, the provinces must take action on the Free Trade Agreement, and even if one province refused to approve the Free Trade Agreement, would that prevent the agreement from taking effect, or does it take effect with approval of the United States Senate?

If one province does not approve the agreement and the administration determines that there is a substantial compliance, would the province which does not approve share in the benefits of the Free Trade Agreement but not the burden?

Mr. MERKIN. I will try to address this as a nonlawyer, Mr. Chairman.

The agreement itself requires that the obligations of the agreement are enacted both by the federal governments and state, provincial and local governments, where applicable.

We have full assurances from the prime minister that Canada will fully implement its obligations under the agreement. Nevertheless, the concern has been expressed by other members of Congress that perhaps there will be difficulties in getting some provinces to implement.

The principal provision we are talking about is the one that deals with the distribution of wine and distilled spirits. There were some significant concessions to the United States in this agreement in that regard.

The Canadian government at this stage is undertaking consultations with each of the provinces in order to ensure that this obligation is fulfilled by each province. However, they have let it be known that they believe they have the authority through the parliament to enforce these provisions, if need be. However, that is not their intention at this time.

Senator EXON. Let me ask you, in other words, what you are saying is that—well, what my statement indicated was the provinces could act on their own, but you are saying there is a line of thought, at least, that while that is generally accepted and we hope it does not come up, it is not clear or certain whether the national government there does or does not have the authority to enforce it on the provinces.

Mr. MERKIN. This issue is a very complex one in Canada, and there are schools of opinion on both sides on how far the federal government can go under their constitution to enforce actions on the provinces which may not be viewed by some provinces as being in the federal domain. So I guess the answer is the government is trying through consultations to get the provinces to implement, that they do believe, although this would probably be subject to a court challenge,, that they have the ability to enforce the agreement over the provinces.

The situation you referred to, what happens if only nine out of the ten provinces implement it? The first point I want to make is that the agreement does not automatically go into effect—it is not automatically implemented once it is approved by the legislative bodies in both countries. There will be required an exchange of letters between the President and the Prime Minister which certifies that the other side has taken necessary steps to satisfactorily implement the agreement.

I think it would be premature for me to try to guess what our position would be come January 1 if principally all the elements of the agreement were implemented save one provincial situation which was being addressed by the federal government in Canada through the judicial system. We obviously would have recourse to the dispute settlement provisions of the agreement which do allow us to take compensating actions if Canada is not in full compliance.

Senator EXON. Well, along that, we are talking about politics and what they have, obviously somewhat of a different system than we do.

Do you have any information that would indicate that the Free Trade Agreement has broad-based support in Canada beyond the ruling Tory party?

Mr. MERKIN. Well, I am not really the expert on that. I am told that there is broad private sector business community support for the agreement, public opinion polls I believe continue to show more supporting

the agreement than opposing it. But that is not to say that there is not some significant opposition to the agreement.

Senator EXON. If the Tory Party would be swept out of office, and they are the principal backers of this agreement and would tear up the agreement, as some of the rhetoric up there has indicated, would the United States then be required to protect our interests, would be required to re-enact legislation, some of which with regard to tariffs and protection, some of which are knocked out by the Free Trade Agreement?

Mr. MERKIN. Well, again, not being a lawyer, I would assume that if Canada terminated the agreement, the agreement in its totality would be terminated, that is, on both sides, and we would go back to the situation which existed prior to implementation of the agreement.

Senator EXON. My question—I am not a lawyer, either—my question is, in your view or in the view of any of the members of the panel—you must have some lawyers in this group. To have as many people as you have here without one lawyer, that would be an historic development in the history of the United States Senate.

Mr. MERKIN. We try to sneak off sometimes without them. But Dan is a lawyer.

Senator EXON. You heard my question.

My question is if they were to tear up the agreement, I assume that we would have to re-enact laws?

Mr. BRINZA. Not actually, Mr. Chairman. The way it is written, the changes made by the implementing bill are only enforced as long as the agreement is in force. So if the agreement were terminated, you would revert back to the original law.

Senator EXON. Okay. So we would not have to past it.

Thank you.

Now, before you run off, is there any precedent for the reaction of the bi-national panel which will have binding authority to interpret U.S. law? Some have criticized this provision, as you know, as possibly unconstitutional.

What do you think as a lawyer about that?

Mr. BRINZA. Mr. Chairman, that is not my area of expertise, but we can provide you for the record the answer. My understanding is that in fact there is precedent for this going back to the first few years after the United States was established. There have been a number of examples since then also. We can provide those to you for the record.

Senator EXON. Thank you very much. I appreciate very much your coming here. It has been a long but very interesting hearing. And we appreciate all of you coming over here today, and you are welcome to come back any time.

We may have some additional questions for the record. As I said earlier, we appreciate your replying.

Mr. MERKIN. We would be glad to, Mr. Chairman.

I cannot leave without noting what good taste you have in ties.

Senator EXON. Our second panel today—and I apologize for the delay in getting to you—represent agricultural interests: Mr. David Senter, Executive Director of the American Agricultural Movement, from Washington, D.C., and Mr Dan McGuire, Executive Director of the Nebraska Wheat Board in Lincoln, Nebraska.

Mr. Senter and Mr. McGuire, if you would come forward at this time, I want to welcome you.

I know that you have come a long way, Mr. McGuire, and we appreciate that very, very much.

I believe we will start our testimony today, if it is all right with both of you, with Mr. Senter.

STATEMENT OF DAVID SENTER, EXECUTIVE DIRECTOR, AMERICAN AGRICULTURAL MOVEMENT, INC.

Mr. SENTER. Mr. Chairman, I appreciate the opportunity to appear today on behalf of the American Agricultural Movement, and also am pleased that I am representing the views of the National Farmers Union, the League of Rural Voters, and the National Save the Family Farm Coalition.

From the exodus out of the room, Senator, I would guess that is why USDA and others think everybody is for the agreements, because nobody stays around to hear both sides of the issue.

Senator EXON. No, I would correct you. I think those were all employees of the Federal Government, and all the other voters are still present.

Mr. SENTER. We have several concerns that we would like to express about the Canadian agreement that we believe will be harmful to U.S. producers.

We want to express our opposition to this agreement in its current form and urge the subcommittee to either try to deal with and correct some of the problems or to reject outright this agreement.

One of the problems that we have with the agreement is that under the proposal, the U.S. has agreed not to limit grain imports under Section 22 unless there is some basic change in price support policy. Canada has entered a similar agreement, but the new measure that would be approved under the agreement is called the Producer Subsidy Equivalent, and USDA has conceded that under this new method, Canada will in fact be allowed to continue restrictions on wheat and corn for the foreseeable future.

We also have problems under the agreement on subsidies. The U.S. agrees not to use the EEP program to subsidize grain to Canada; however, Canada can still keep in place its system of rail transportation subsidies. The vast majority of wheat and corn exports come out of the Great Lakes and eastern Canadian ports, and it will continue to enjoy this major transportation subsidy.

Taken together, the Canadian market will basically remain closed to U.S. producers, while the U.S. market will be opened even wider for Canadian producers.

I would like during the next statement to correct some mistakes and misstatements made by the representative of USDA. This is a little bit like their estimate on cost of the 1985 farm bill. They estimated it would cost $9 billion. It cost $26 billion. Well, it is nearly as close on this.

Canadian wheat imports into the U.S. in 1984 were negligible. Today we import over 400,000 metric tons per year. In 1984 we were selling 2 million tons, or thereabouts, of corn to Canada, but when they imposed their 39 cents a bushel countervailing duty, those sales have disappeared and now we are actually importing 200,000 metric tons of Canadian corn into the United States.

USDA had indicated earlier that we were still exporting corn to Canada. We are not. Canada is exporting corn into the United States currently.

We are very concerned about transportation problems. We have been having tremendous difficulty getting hopper cars and moving grain during our increased export activity out of a lot of the wheat areas and even some corn areas, and it would appear that particularly grain produced in states in the north, if railroads had the opportunity to load unit trainloads of grain in Canada and move south, that that would be advantageous and it would leave a lot of our smaller elevators and facilities with that much more difficulty getting cars for export.

We would like to point out that the grain that will be exported from Canada into the United States will be commingled. The statement about it being illegal to export Canadian grain using our subsidy program is correct, but there would be absolutely no problem with bringing Canadian grain into the United States and displacing domestic produced grain, and then pushing that much more of our domestic produced grain into the subsidy programs, so companies such as Cargill and others that operate grain facilities in both Canada and the U.S. could move Canadian grain in, claim they were using Canadian grain domestically, and all that they was exporting was U.S. grain. So in effect, we would be paying an export subsidy on additional Canadian grain under our programs, increasing our budget impact.

We also are concerned with transshipment. There have been a lot of statements in trying to clarify that transshipment would not be a problem. I know on shirts, for instance, they could come into Canada, sew a few buttons on, and all of a sudden they have met the criteria and could enter the United States. So we are concerned that even foreign products could come into Canada, take some new shape, and flow into the United States around our different import barriers, to the detriment and increased cost of our programs.

The inspection in Canada, this is one of the interesting things—they say that inspection will prevent transshipment. Well, there is only a very small percent of the imports actually inspected and tracked as it moves through that system, so it would be very easy to move and transship through Canada without having major problems with being inspected.

The elimination of judicial review is also a concern. In the past when there was problems dealing with trade, the opportunity has been there, dealing with trade decisions, countervailing duties and dumping charges, for review before the U.S. Court of International Trade and different appellate courts. To transfer these matters to an administrative panel we feel like, you know, it would be an appointed panel, and we are not sure that they would get the fair and equitable treatment that they have going through the normal judicial process.

In summary, Mr. Chairman, I am here to urge this committee to take one of two courses, either strengthen the language in the proposed agreement and correct the problems; or reject the proposed agreement.

The proposed Canadian Free Trade Agreement includes unfair advantages for Canadian producers and unfair disadvantages for U.S. agricultural producers. We have heard here today again that not to worry, trust me, we are going to take care of the subsidy and other problems ten years down the road. Frankly, it could be devastating to U.S. producers even one or two years of dealing with these unfair subsidies.

The ten years sounds like a repeat of the ten year program in GATT, and that is how we look at it. This is a step in the process to GATT to eliminate all farm programs, all subsidies and all quotas. We do not support that kind of a program. We believe this is just all part of the package.

Mr. Yeutter in a recent speech said that the agreement was not negotiated to benefit raw material producers; rather, the processors. We believe that was a true statement. And this agreement does not benefit the raw material producers.

Thank you, Mr. Chairman.

[The statement follows:]

TESTIMONY OF DAVID SENTER
EXECUTIVE DIRECTOR
AMERICAN AGRICULTURE MOVEMENT, INC.

I appreciate the opportunity to appear before this Subcommittee today on behalf the **American Agriculture Movement, Inc.**, to present our views concerning the proposed U.S.-Canadian Free Trade Agreement. I am pleased to note that the views I am expressing today are also shared by three other family farm organizations: the **National Farmers Union; the League of Rural Voters; and the National Save the Family Farm Coalition.** Because of a number of provisions which we believe are unfair and harmful to U.S. agriculture producers, we wish to express our opposition to this agreement, at least in its current form, and to urge this Subcommittee either to correct these problems or to reject the agreement.

IMPORT RESTRAINTS

Under this proposal, the U.S. has agreed not to limit grain imports under Section 22 of the Agriculture Adjustment Act of 1933, unless some basic change in price support policy causes an import surge. Unfortunately, Canada has made a similar commitment to end their import restrictions only at such time as "support levels", measured by a new Producer Subsidy Equivalent (PSE) methodology, are equal. Officials at the U.S.D.A. concede that this new method of determining support levels will in fact allow Canada to continue their import restrictions on wheat and corn for the forseeable future.

There are other methods of measuring domestic subsidies, including the World Bank's "nominal protection coefficients", which would show that the support provided to wheat and corn producers by the two countries is more nearly equal. By selecting the PSE method, this agreement assures that Canada can continue import restrictions on our wheat and corn, while the U.S. elimnates its restrictions. The result will surely hurt U.S. producers.

EXPORT SUBSIDIES

Another area where U.S. producers are hurt by this proposal concerns domestic subsidies to producers for exports. The U.S. agrees not to use the Export Enhancement Program (EEP) to sell grain to Canada. However, Canada will continue to utilize a system of rail transportation subsidies, except in the Western Canadian ports, which are specifically designed to render their grain exports more competitive. The vast majority of wheat and corn export tonage, which comes out of the Great Lakes and other Eastern Canadian ports, will continue to enjoy a transportaion subsidy of $24 per ton, giving a significant advantage to Canadian producers, and hurting U.S. producers.

Taken together, these two matters assure that the Canadian market will remain closed to U.S. grain producers, while the U.S. market will be opened even wider for Canadian producers. That is neither free trade nor is it fair trade; that's simply a bad deal for U.S. producers.

As recently as 1984, Canadian wheat imports into the U.S. were negligible; today we import over 400,000 metric tons per year. In 1984 we were selling approximately 2 million metric tons of corn to Canada; with their imposition of a 39 cents per bushel countervailing duty, those sales have disappeared, and we now import 200,000 metric tons of Canadian corn yearly. The proposed U.S. - Canadian Free Trade Agreement will exacerbate this growing problem of Canadian grain imports, to the detriment of U.S. producers.

EEP PROGRAM WILL SUBSIDIZE CANADIAN GRAIN

Another problem with the proposed agreement is the impact it will have on the use of taxpayer funds to subsidize U.S. exports of grain to third countries. In theory, EEP funds may only be used to subsidize the export of domestically produced grain. In fact, with the increase in Canadian grain entering the U.S., and the commingling of that grain with domestically produced grain, it will be difficult if not impossible to police this limit on the use of EEP funds.

For example, once the grain is commingled, how will the USDA determine what part of our exports are entitled to EEP support? What is to keep Cargill or other multinational grain trading companies from claiming that all of their Canadian grain is used for U.S. domestic purposes, while all of their exported grain is conveniently comprised only of U.S. produced grain, and thus entitled to EEP support. Not only will the EEP subsidy be unavailable as an incentive to sell U.S. grain to Canada; U.S. tax money will be utilized to export from the U.S. to third countries subsidized wheat originally imported into the U.S. from Canada. Clearly this will hurt U.S. producers and waste taxpayer dollars.

PROBLEMS WITH THE TRANSSHIPMENT OF GOODS

An especially worrisome problem involves the potential for third countries, usually subject to import limitations, to ship goods to Canada, where they will be transshipped to the U.S. quota free under this agreement.

While the proposed agreement attempts to prohibit this transshipment of third party goods, there is no reason to believe that this will be any more effective than similar prohibitions included within the Caribbean Basin Initiative. Many U.S. industries, including textiles, have been hurt badly by the abuse of these provisions, and we believe similar abuses will continue under the Canadian agreement. Since only a small fraction of imported goods are actually inspected at the border, these prohibitions against transshipment will be dependent upon an honor system, and there is little reason to expect this to be effective. The result will likely be that trade advantages intended to be provided only to Canada will in fact be available to producers of goods in many other countries that do not provide similar advantages to U.S. producers.

THE ELIMINATION OF JUDICIAL REVIEW

Finally, we believe Congress should demand the elimination of language in the proposed agreement that purports to remove administrative agency trade decisions and actions on countervailing duties and antidumping matters from the review of the U.S. Court of International Trade and its appellate tribunals, and to transfer these matters to an administrative panel.

First, these provisions raise serious constitutional questions. The Constitution requires that the Congress establish federal courts inferior to the Supreme Court. Congress has done so, and has chosen, under the Trade Agreements Act of 1979, to provide equal access to importers, U.S. producers, and to labor unions, to seek judicial review of countervailing duty and antidumping decisions by administrative agencies. Now, without any authorization from Congress, the Executive Branch has elected to negotiate away this right of judicial review earlier provided by Congress. This may be unconstitutional, and it is certainly unwise. It attempts to negate Congressionally-created rights, including those protecting U.S. manufacturers and other affected private parties, that have been painstakingly developed over a period of several decades.

Congress should restore the important right of judicial review in these matters, and should indicate to the Executive Branch that this is not an area about which they have the authority to negotiate in future trade negotiations. Administrative panels created by the Executive Branch are not federal courts, and they cannot provide the impartial judicial review of an adverse agency decision to which all parties should be entitled.

SUMMARY

In summary, I am here to urge this Committee to take one of two courses of action; either strengthen the language in the proposed agreement to correct the problems identified in my statement, or reject the proposed agreement. In its current form, the proposed U.S.-Canadian Free Trade Agreement includes unfair advantages for Canadian agricultural producers and unfair disadvantages for U.S. agricultural producers, and will result in significant harm to U.S. farmers.

There may be other areas in which the U.S. will benefit from this proposed agreement. In agriculture, we will be hurt badly. There can be no justification for placing additional burdens on U.S. farmers who are only now struggling to recover from the devastating farm crisis of the 1980s. I respectfully urge you not to allow the current administration to sell out the interests of U.S. farmers in their zeal to reach so-called "free trade" agreements with Canada and other countries.

Senator EXON. Thank you very much, Mr. Senter. We will have some questions on that, and I am pleased to recognize Mr. McGuire at this time.

STATEMENT OF DAN McGUIRE, DIRECTOR, NEBRASKA WHEAT BOARD

Mr. MCGUIRE. Thank you, Senator. My name is Dan McGuire. I am the Director of the Nebraska Wheat Board.

The Wheat Board is a state agency of Nebraska charged with the mandate of protecting and stabilizing the wheat industry and the economy of the wheat-producing areas. The Nebraska Wheat Board appreciates this opportunity, and commends the Committee for conducting this hearing.

Perhaps of greatest significance is the agricultural trade policy direction and precedent that the United States is setting by pursuing such an agreement in the first place. A number of very important questions remain unanswered relative to the impact that the FTA could have on various sectors of U.S. agriculture.

One very important and strategically critical area is the transportation sector. Our country elevators, who have made major investments in expansion of their capacity to load unit trains, et cetera, have been unable to get hopper cars.

And an article appeared in the "Lincoln Journal" just yesterday talking about that crunch, intensifying this summer during the wheat harvest, and again in the fall during the soybean and feed grain harvest.

The question faced by the grain industry is whether the FTA could intensify competition for an already short supply, and aging inventory, of U.S. rail equipment. Will Nebraska wheat producers be competing directly with the Canadian Wheat Board for U.S. grain hopper cars once this agreement is ratified, if it is?

As of January 1988, the most significant revisions to Canadian national transportation laws in 20 years come into force. The National Transportation Act of 1987 appears to have set Canada's rail system on a path of so-called deregulation similar to the existing U.S. system.

According to the Western Transportation Advisory Council, the WESTAC Digest, Canadian rail movements under the Western Grain Transportation Act are exempt from both arbitration and public interest investigation.

Furthermore, the WESTAC report indicates the U.S. railways with routes entirely in Canada or partly in Canada and the U.S. may become party to rate and service agreements, and railways may provide a reduced rate in return for the shipper agreeing to move a given portion of his traffic by rail.

Will this new Canadian provision encourage U.S. rail equipment to move north into Canada? One example might be U.S. jumbo hopper cars carrying fertilizer into Canada's grain production areas, then returning with a back haul such as Canadian wheat.

And I am not suggesting that U.S. fertilizer needs to go into Canada. I am suggesting that our equipment could get into Canada to move their own fertilizer products around up there.

And I do not know if it is correct or not, but it is my understanding that there is no oversight or reporting requirement on acquisitions between corporations across the border of $50 million or less. I do not know if that is accurate, but I have heard that statement. It could impact on this.

Furthermore, grain is not the only commodity transported in jumbo covered hoppers. The conventional wisdom for many years has been that other bulk commodities, such as fertilizer, chemicals, grain mill products, and some non-metallic minerals all compete for the same type of rail equipment grain elevators rely on. Now, that is out of the USDA transportation report, I believe, issued April 12th, 1988.

Furthermore, if Canadian wheat imports to U.S. markets increase under the scenario I have just described, what is to keep that wheat from taking a free ride on the export enhancement program? As you have mentioned earlier, and I agree that that is a very big concern.

The issue of wheat quality and grain standards also comes into play as a concern. Canadian grain standards and grade requirements are stricter and tighter than those in the United States. It is possible that wheat that does not meet higher grades in Canada could find a home within the U.S. wheat supply, meeting our more lenient standards.

Canada cleans its wheat prior to export. Might the FTA encourage that cleanout to move across the U.S. border where it might be blended with U.S. wheat and deteriorate the quality of U.S. wheat entering both domestic and export channels?

Another specific concern regarding the Canadian rail structure is the Western Grain Transportation Act subsidy provision. A senior official with Transport Canada said, farmers will be able to sell into the U.S. eastern seaboard using the WGTA rate.

Quoting that individual now. Yes, that is exactly right. That particular question was not raised in the pre-trade negotiations by the Americans, said Geoffrey Craven.

We were expecting the Americans to say, remove the whole WGTA, but there was no agreement on subsidies other than that particular small part, meaning the western, Pacific Northwest area.

The lack of FTA provisions restricting use of the WGTA freight subsidy on Canadian grain entering the U.S. market raises questions about the intent of the U.S. negotiators and their seriousness about protecting U.S. farm programs or U.S. farmers.

U.S. wheat producer organizations have been assured that if the Canadian wheat exports to the U.S. surge, they can rely on Section 22 of current U.S. agricultural law for relief.

The U.S. special trade representative, and the U.S. Secretary of Agriculture, say the FTA allows Section 22 to be invoked if a "significant increase of wheat imports from Canada occurs," and significant is said to be interpreted as any increase.

Furthermore, the Administration representatives have told the wheat growers that a substantial change in support programs in either the U.S. or Canada would be interpreted as any change.

However, it is clear that this is a very loose interpretation of the FTA intent and language, and a future administration may never accept such administrative action or interpretation.

After reviewing this Administration's track record on trade and farm policy, it seems unlikely that they would self-initiate, promote, or look favorably on a Section 22 claim against Canada.

They have had that perfect opportunity during the past seven years. U.S. wheat imports from Canada have increased from the average of 2.5 million bushels during the 1980 to 1985 period to 12.7 million bushels in the 1986-1987 marketing year. That is a 500 percent increase.

Durum imports from Canada have surged from 37,000 bushels to nearly 2.3 million bushels during the same period. That is an import volume increase of 61 times. There is no doubt that imports of Canadian wheat have increased significantly in recent years, and that they are undercutting domestic supports for wheat.

The monthly equivalent of a 30,000 metric ton vessel of Canadian wheat entered the U.S. market during 1986-1987. Now, I would assume that if a vessel a month came from Argentina or the European community, we would get somewhat alarmed.

If the Administration truly supports the concept embodied in Section 22, why have they not used the authority it offers? Section 22 should be implemented immediately, or the price support loan rate for wheat should be raised to offset the negative market impact caused by Canadian wheat entering our domestic market.

I suggest to you that the Section 22 implementation flies in the face of the Administration's farm and trade policy, and the U.S.-Canada FTA will only further entrench such thinking into the structure of U.S. farm policy.

The U.S.-Canada free trade agreement is fundamentally bad policy for additional reasons. Administration representatives say that they need the FTA ratified so that they can use it as a model for further GATT negotiations.

That approach suggests that the U.S. plans to allow Canada to be a major architect in drafting future U.S. farm programs and domestic farm policy.

Extrapolating the Administration's approach on Canada further into GATT suggests that other GATT members will play a major hand in writing future U.S. farm programs as well. Where does that pattern stop?

Does the U.S. Congress allow its hands to be tied under such a direction to the extent that it has to clear the next farm bill, first with Canada, then with the GATT, and then with the United Nations? Or whoever?

The list goes on. Free trade is nothing but a theoretical concept promoted by industries that want to purchase cheap raw materials including cheap wheat. Mr. Senter referred to the processing industry. I think he is exactly right.

Consumers do not even benefit from the low wheat prices that go hand in hand with free trade farm policy, because bread prices rise as if the price of wheat to the farmer had gone up rather than down.

The Administration's argument that they need the FTA to send the proper signal to GATT lacks credibility as well, because the European economic community is strengthening its stand against the U.S. proposal.

Fifty-nine percent of the 12,000 Western Europeans polled recently said, EEC subsidies to farmers are a good thing. Eighty percent of the wheat producers polled by SRI Research Center of Lincoln, Nebraska in June 1987 opposed wheat and wheat products coming in to the United States from Canada.

And after Senator Melcher's testimony, I would suggest, and our belief is that the majority of wheat producers in the country believe the same way.

So the question is, who is the FTA designed for? In the wheat industry, it is obviously for multinational traders and grain merchants that can bring Canadian wheat into the U.S. market and depress the wheat price on boards of trade for all available wheat supplies. And the Nebraska Wheat Board would urge the Senate to oppose ratification of the agreement.

Senator, I have a couple of other points if I could make them.

Senator EXON. Go right ahead.

Mr. MCGUIRE. I would ask that all of this be entered into the record.

On the freight subsidies, that question came up quite a bit during the earlier testimony. In a May 4th, 1988 letter to you, Senator, Canadian Ambassador Alan Gottlieb stated that, and quoting from that letter, In 1984 the United States was designated as an export market eligible for these rates, the WGTA freight rates.

USDA documents from hearings in North Dakota state, the FTA would prohibit either Canada or the United States from using export subsidies on shipments of agricultural goods to each other.

The question that comes to mind, how can the U.S. and its negotiators accept Canada's contention that the WGTA freight subsidies to eastern ports are domestic subsidies when Canada itself has designated the entire U.S. as an export market.

Another concern is Section 22 and USDA comments. Concerning Section 22, USDA documents state, note, Section 22 is not designed to protect U.S. growers. It only protects USDA price support stabilization programs.

Now, this is not part of their quote. Yet Section 22 itself clearly states that a fundamental element of U.S. agriculture policy has been stabilization and support for farm prices.

That element is clearly designed for the protection of farm income, which obviously protects U.S. growers. The USDA's interpretation of Section 22 raises serious questions about the agency's willingness to invoke its provisions under any circumstances.

Therefore, how can U.S. wheat growers be comfortable with USDA and USTR's claim that Section 22 is a relevant safeguard against Canadian wheat imports. They are not using it now and I do not believe they would use it in the future.

The issue of Canada selling products below acquisition cost. USDA documents state, the United States and Canada have agreed that neither government, including any public entity it establishes, or maintains, shall sell agriculture goods to the other country at below the acquisition price of the goods, plus any storage, handling, or other costs incurred by it with respect to those goods.

What about the provincial governments and entities such as the Saskatchewan wheat pool elevators? They, as I understand it, basically do their own thing. Some of their wheat may go with the Canadian Wheat Board, some of it does not.

So the question is also, would not the lower acquisition costs of Canadian lower quality or feed wheat encourage such wheat to move into the U.S. market and be blended with U.S. wheat as a result of the differences in the standards.

Final point, Canadian feed grains relative to U.S. wheat. A February 1988 report from the Canadian Grain Commission lists number three, Canadian western red spring wheat as a feed ingredient.

Is it possible that the spirit of the FTA would encourage such wheat to enter the U.S. market as a feed grain and become wheat after it has already been co-mingled in the U.S. marketing channels?

And Senator, I have lengthier testimony that I have submitted as well. And all of the reports I referred to are exhibits attached [1] to that lengthier testimony. Thank you. I appreciate the opportunity.

[The statement follows:]

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[1] The attachments were not reproducible.

STATEMENT OF DANIEL T. MCGUIRE, DIRECTOR, NEBRASKA WHEAT BOARD

Mr. Chairman and Members of the Committee: My name is Dan McGuire, Director of the Nebraska Wheat Board, the state agency mandated to protect and stabilize the state's wheat industry and the economy of the wheat producing area. The Nebraska Wheat Board appreciates the opportunity to express our views on the United States/Canada Free Trade Agreement. I request that my formal testimony with attachments also be made a part of the official record.

The Board commends the committee for conducting this public hearing on a development that could adversely affect the U.S. wheat industry for years to come. Perhaps of greatest significance is the agricultural trade policy direction and precedent that the United States is setting by pursuing such an agreement in the first place.

A number of very important questions remain unanswered relative to the impact that the FTA could have on various sectors of U.S. agriculture. One very important and strategically critical area is the transportation sector. Wheat producers rely primarily on rail transport to move the vast majority of their annual production to both domestic and foreign markets. A shortage of locomotive power, jumbo grain hopper rail cars or both can easily bring the movement of wheat from Nebraska and other Great Plains states to a virtual standstill. Nebraska's wheat industry has witnessed just such a situation in the past eight to ten months. Our country elevators who have made major investments in unit train loading capacity have been unable to get hopper cars. Some elevators have had five to ten 54-car unit trains on order for months. While the specific causes of the rail equipment shortage is still being analyzed, there is no question that a negative economic impact resulted for country elevators and wheat producers as well.

The question faced by the grain industry is whether the FTA could intensify competition for an already short supply and aging inventory of U.S. rail equipment. Will Nebraska wheat producers be competing with the Canadian Wheat Board and the government of Canada for U.S. grain hopper cars and locomotives?

An April 12, 1988 report from the Office of Transportation of the U.S. Department of Agriculture (see Exhibits A, B and C attached) indicates that the Commodity Credit Corporation's weekly wheat auctions played a major role in tying up 15% of the total rail car demand nationwide for grain movement or a weekly demand for approximately 4,700 covered hopper cars for grain service. While the merits of USDA's administrative decision to conduct weekly wheat auctions is debatable, there is no doubt that the action served to lower wheat prices to farmers by creating free stocks in the market pipeline that otherwise would have been a more managed wheat supply within the farm program. The point is that an administrative U.S. government decision created an artificial demand for rail equipment and undermined wheat prices at the same time. To the same extent that the release of CCC wheat stocks undermined domestic farm program price supports and supply management, the increasing entry of Canadian wheat into the U.S. market has a similar impact. U.S. imports of Canadian wheat add to the free stocks category on the supply side of the U.S. supply/demand balance sheet. Will administrative decisions by the Canadian government or joint decisions between the governments of Canada and the United States encourage additional volumes of Canadian wheat to enter the United States market? Such decisions may well be in the works as a result of changes already enacted into Canadian law.

As of January 1988, the most significant revisions to Canadian national transport laws in twenty years come into force. *The National Transportation Act, 1987* appears to have set Canada's rail system on a path of deregulation similar to the existing U.S. system. According to the Western Transportation Advisory Council (WESTAC digest), Canadian rail movements under the Western Grain Transportation Act are exempt from both arbitration and public interest investigation (see Exhibits D and E attached). Furthermore, the WESTAC report indicates that U.S. railways with routes entirely in Canada or partly in Canada and the U.S. may become party to rate and service agreements and railways may provide "a reduced rate in return for the shipper agreeing to move a given portion of his traffic by rail" (see Exhibit F attached). Will this new Canadian provision encourage U.S. rail equipment to move north into Canada? One example might be U.S. jumbo hopper cars carrying fertilizer into Canada's grain production areas and then returning with a backhaul such as Canadian wheat. Quoting from the USDA-Office of Transportation report I referred to earlier, "Grain is not the only commodity transported in jumbo covered hopper cars. The conventional wisdom for many years has been that other bulk commodities such as fertilizer, chemicals, stone and clay, grain mill products and some non-metallic minerals all compete for the same type of rail equipment on

which grain shippers rely." Considering this factor and reports of railcar shortages delaying Canadian grain shipments last fall, the potential for Canada to compete with U.S. grain elevators and wheat growers for U.S. rail equipment seems very real. Furthermore, if Canadian wheat imports to U.S. markets increase under the scenario I've just described, what's to keep that wheat from taking a free ride into the world market under our Export Enhancement Program? In fact, that could be happening today. That would put an entirely new meaning on FTA. "Financing the Adversary" in world wheat trade might be an appropriate new title.

The issue of wheat quality and grain standards also comes into play as a concern. Canadian grain standards and grade requirements are stricter and tighter than those in the United States. It's possible that wheat that doesn't meet higher grades in Canada could find a home within the U.S. wheat supply meeting our more lenient standards. Canada cleans its wheat prior to export. Might the FTA encourage that cleanout to move across the U.S. border where it might be blended with U.S. wheat and deteriorate the quality of U.S. wheat entering both domestic and export channels. Or might wheat that is categorized as domestic feedgrain in eastern Canada move into the U.S. as a feedgrain and become "wheat" once it's in our marketing system (see Exhibits G, H, and I attached from *Grain Facts, Canada*).

Another specific concern regarding the Canadian rail structure is the Western Grain Transportation Act subsidy provision. According to press statements attributed to Terry Norman of Canada's Trade Negotiation Office, "Anything that moves to Vancouver and then gets used domestically within B.C. does not get the WGTA rate." However, products moving east through Thunder Bay get the WGTA rate whether they're for domestic use or export markets. "Moving east, it's regarded as an internal domestic transportation subsidy that affects all the products. If the grain happens to move to port using a domestic subsidy, that's a break in our favor," Norman said. A senior official with Transport Canada said: *farmers will be able to sell into the U.S. eastern seaboard using the WGTA rate.* "Yes, that's exactly right . . . that particular question wasn't raised in the free trade negotiations by the Americans," said Geoffrey Craven. "We were expecting the Americans to say (remove) the whole WGTA, but there was no agreement on subsidies other than that particular small part" (see Exhibits J and K attached).

The lack of FTA provisions restricting use of the WGTA freight subsidy on Canadian grain entering the U.S. market raises questions of the intent of the U.S. negotiators and their seriousness about protecting U.S. farm programs or U.S. farmers. Considering the Administration's "free trade," low wheat price mindset, it may not be too surprising that they actually intend for U.S. imports of Canadian wheat to increase under the FTA. Ironically, lower wheat prices under the FTA won't lower bread or other wheat food product prices to U.S. consumers anymore than the 1985 farm bill did. Perhaps when President Reagan told the U.S. Chamber of Commerce last October that "the U.S.-Canada Free Trade Agreement is a New Economic Constitution for North America," he included dragging the price of wheat down to the lowest level possible on both sides of the border and dismantling farm programs and price supports in the new "Constitution".

U.S. wheat producer organizations have been assured that if Canadian wheat exports to the U.S. "surge," they can rely on section 22 of current U.S. agricultural law for relief. The U.S. Special Trade Representative and the U.S. Secretary of Agriculture say that the FTA allows section 22 to be involved if a significant increase of wheat imports from Canada occurs and "significant" is said to be interpreted as "any" increase. Furthermore, the Administration representatives have told the wheat growers that a substantial change in support programs in either the U.S. or Canada would be interpreted as "any" change. However, it is clear that this is a very "loose" interpretation of the FTA intent and language and a future Administration may never accept such administrative action or interpretation. For that matter, the U.S.-Canada Bi-National Tribunal that would ultimately rule on such matters may never buy such an interpretation either.

After reviewing this Administration's track record on trade and farm policy, it seems unlikely that they would self-initiate, promote or look favorably on a section 22 claim against Canada. They have had the perfect opportunity during the past seven years. U.S. wheat imports from Canada have increased from an average of 2.5 million bushels during the 1980–81 to 1984–85 period to 12.7 million bushels in the 1986–87 marketing year. That's a 500-percent increase. Durum imports from Canada have surged from 37,000 bushels to nearly 2.3 million bushels during the same period. That's an import volume increase of 61 times (see Exhibit L attached).

There's no doubt that imports of Canadian wheat have increased significantly in recent years and that they are undercutting domestic price supports for wheat. The equivalent of a 30,000 metric ton vessel of Canadian wheat entered the U.S. market

every month during 1986–87. That Canadian wheat volume depressed average market prices for U.S. wheat and to that same extent, the cost of federal farm programs increased by causing increased deficiency payments which further undermines domestic wheat programs. The wheat import numbers I cite are for raw wheat only. The U.S. also imports substantial volumes of Canadian milled wheat, biscuits, cakes, wafers and similar baked products, bread in the loaf, cereal breakfast foods, macaroni and wheat gluten for both human and animal consumption (see Exhibits M, N and O attached).

If the Administration truly supports the concept embodied in section 22, why haven't they used the authority it offers? Section 22 should be implemented immediately or the price support loan rate for wheat should be raised to offset the negative market impact caused by Canadian wheat entering our domestic market. I suggest to you that section 22 implementation flies-in-the-face of the Administration's farm and trade policy and the U.S.-Canada FTA will only further entrench such thinking into the structure of U.S. farm policy.

We must remember that the same Administration promoting the FTA also champions the approach of wiping out price supports, subsidies and farm programs completely. It seems very inconsistent that the "free trade" Administration will choose to use section 22 either before or after the FTA, if the FTA is actually ratified.

The U.S.-Canada Free Trade Agreement is fundamentally bad policy for additional reasons. Administration representatives say that they need the FTA ratified so that they can use it as the model for further GATT negotiations. That approach suggests that the U.S. plans to allow Canada to be a major architect in drafting future U.S. farm programs and domestic farm policy. Extrapolating the Administration's approach on Canada further into the GATT suggests that other GATT members will play a major hand in writing future U.S. farm programs as well. Where does that pattern stop? Does the U.S. Congress allow its hands to be tied under such a direction to the extent that it has to clear the next farm bill first with Canada, then with GATT and then the United Nations? Future U.S. farm policy is entirely too important for reasons of national security and economic well being to allow a helter-skelter dash toward "free trade" to override good judgment.

Free trade is nothing but a theoretical concept promoted by industries that want to purchase cheap raw materials including cheap wheat. In the wheat industry, "free trade" is promoted by multinational grain traders and wheat processors as a means to do away with price supports and logical supply management programs. Consumers don't even benefit from the low wheat prices that go hand-in-hand with "free trade" farm policy because bread prices rise as if the price of wheat to the farmer had gone up rather than down.

The Administration's argument that they need the FTA to send the proper signal to GATT lacks credibility as well, because the European Community is strengthening its stand against the U.S. proposal. A recent public opinion poll shows that a majority of West Europeans believe that their governments should protect farmers from imports. A clear majority throughout the region said financial aid to farming should remain a top public priority. Fifty-nine percent of the 12,000 people questioned said EEC subsidies to farmers are a good thing (see Exhibit P attached). The United States public also supports programs that strengthen the farm sector.

Eighty percent of the wheat producers polled by SRI Research Center of Lincoln, Nebraska in June 1987 oppose wheat and wheat products coming into the United States from Canada (see Exhibit Q attached). The Nebraska Wheat Board believes that the majority of all U.S. wheat producers feel the same and oppose the U.S.-Canada Free Trade Agreement. The question is who is the FTA designed for? In the wheat industry, it's obviously for multinational traders and grain merchants that can bring Canadian wheat into the U.S. market and depress the wheat price on the boards of trade for all available wheat supplies.

The Nebraska Wheat Board urges the Senate to oppose ratification of the Agreement.

Thank you for the opportunity to testify. I will be glad to answer any questions.

Senator EXON. Thank you, Mr. McGuire. And without objection, we will accept both of your statements as a full part of the record, as I have indicated earlier, and the attachments thereto.

I have a few questions that I would like to ask of you. First, Mr. McGuire, I alert you to, if you can, to go back in your testimony. I will ask you a question in a minute.

You made some reference to a statement by the United States trade representative that indicated that this so-called fair trade agreement was good for manufactured goods but not for agricultural products. I said something to that effect earlier. I am going to ask you to refer to that, so you might look that up.

Meanwhile, MR. Senter, you recommended that we strengthen the language or reject the agreement. What would you consider as sufficient strength? And I am talking about particular areas that, or how would you change the agreement so that it could be made acceptable?

Do you have any specific recommendations you would like to make in that area?

Mr. SENTER. Senator, in our opinion, it would be extremely difficult to move both the Administration and Canada into a position that the agreement might be acceptable.

We view, such as the import restraints, any agreement that continues to allow them free access to our markets, and yet we do not have free access to their markets, as just totally unacceptable.

Also, as Mr. McGuire pointed out, we may view the U.S. as an export market, and when with their rail subsidies and their access into our market, we view that as a very serious problem.

With the attitude of ignoring and not enforcing Section 22 that we have dealt with already, it will make it very difficult to have an effective agreement that is going to protect U.S. producers unless an administration is willing to do that. And we view that as a very serious problem.

We are concerned about the trans-shipment issue and how many agriculture products would be involved. And will sugar pour into Canada and make cookies and cookies into our market. You know, there is just a whole list of possibilities that exist there under the trans-shipment.

In most agreements, you look to the agreements, and you talk about, well, leveling the playing field so everybody starts out on an equal footing. That kind of progress would have to be made before we would view in any kind of a positive way this agreement.

We just frankly believe this is a step toward the phaseout and elimination of all programs that are being sought in GATT. And we are not sure we are going to get the kind of cooperation to solve the problems in the agreement, if we hurry through it this year.

And there is a big effort to try to complete this before, well, this year, and that would appear to be a major problem in trying to solve the inequities of the agreement.

Senator EXON. Mr. Senter, would you review again for the record at this point your opening statement with regard to the organizations that you are speaking for, that you are authorized to speak for here today, in addition to the American Agriculture Movement?

Mr. SENTER. Yes, sir. I am representing the views of the National Farmers Union, the League of Rural Voters, and National Save the Family Farm Coalition.

Senator EXON. I was interested in that because, I must say that while I think this agreement has far-reaching implications, there seems to be relatively little concern about this among family-sized farmers.

You know, we hear it from the family-sized farmers, because I have been close to them for a long, long time. I checked with my ag staff man. He has not had a single letter pro or con on this issue from Nebraska farmers.

The staff man that handles some of our trade matters, in particular, has had a few letters from certain groups, some egg producers and some others. We have had some brief correspondence from the National Association of Corn Growers and the Wheat Growers, and certainly we have heard from the organization that Mr. McGuire represents. And we heard from them very early.

It is pretty evident to me that a typical farmer out there, it may be such a busy time for him with his planting season that he just has not begun to focus on this. I am not sure that, I am just wondering how many farmers that will be affected one way or the other, and we have not had any letters in support of this.

In other words, some opposed, none in support, and none from rank and file farmers, which I find rather interesting. Why do you think that is?

Mr. SENTER. Senator, I had started to say that I would guess that probably the letters from both sides had probably been about equal in the reaction that you have received.

One of the things that we find among American Agriculture Movement members is the fact that they have heard this trade rhetoric, this free trade, this GATT phaseout. It has been in the news and headlines, and this has been going on for almost a year now, and they are sick and tired of hearing about it.

They are out there worried about what the price of wheat is in Brownville, Nebraska. They are worried about the price of corn. They are worried about getting their loan refinanced for another year. And frankly, they have not been excited about this agreement.

Our organization, as well as the others that I am representing, we are just beginning the process of informing our members what kind of a negative impact this agreement will have on their farming operation.

We have been dealing with a lot of other issues this year. And we wanted to wait until the Canadian agreement came front and center before we started the process, because frankly our members are tired of hearing all of this rhetoric coming out of the Administration about free trade.

And until we could start getting some details on exactly how that agreement would affect them, it was months that we could not even find out the impact and whether there would be restrictions on our grain going north or they would have open access.

So it has been a difficult process to get down to the point we are at now, where we can come out and honestly propose this agreement in its current form.

Senator EXON. I thank you. Mr. McGuire, did you find that part of your testimony that I inquired about? Would you read it once again?

Mr. MCGUIRE. Yes. First I referred to Mr. Senter's comments relative to Mr. Yeutter's recent speech concerning processors.

The agreement was not made for raw material producers, but it was made for processors of raw materials. I referred to that primarily, but I also in my own prepared remarks made the point, the question is, who is the FTA designed for?

In the wheat industry, it is obviously for multinational traders, grain merchants that can bring Canadian wheat into the U.S. market and depress the wheat price on the boards of trade for all available wheat supplies.

Senator EXON. I understand. You were quoting Mr. Senter's evaluation of the trade agreement, rather than what the trade representative said.

Mr. MCGUIRE. Exactly. I was referring to the comment that he made relative to the speech that Mr. Yeutter apparently has given.

Senator EXON. I think that from what I can tell about this agreement, I think this agreement basically is good for manufactured goods. I can see how those in the manufacturing business would be enthusiastically in support of it, because they obviously have studied it much more than the average farmer has had a chance to study it.

And maybe he will become more upset about this as we go on down the line.

Mr. Senter, it has been estimated that the Canadian Crow's Nest rail subsidy constitutes approximately 80 percent of the transportation cost of moving agricultural products through Thunder Bay. In your study of this, do you agree with that figure or something quite near it?

Mr. SENTER. Yes, we would estimate it to be very near that figure.

Senator EXON. Mr. McGuire, please elaborate on your concern for the new Canadian rail deregulation legislation and how that might encourage rail equipment to move north into Canada?

I guess what you were saying is that once a hopper car gets up there, which we have had trouble with for years, once a hopper car gets on the East Coast out of Omaha, it seems to take years to ever get it back. Is that a major concern that our shortage will become even worse when there is a flow of this into Canada to ship what I am sure will be more flow of goods back down into the United States?

Could you elaborate on that a little bit? Is that the major concern that you have as far as transportation is concerned?

Mr. McGuire. It is, because it is not just a matter of hopper cars going up there. It is a matter of if locomotive power is repositioned into Canada. And this report that I referred to, this Western Transportation Advisory Council report which is attached, the relevant parts are attached to my testimony, it uses some diagrams in there and in the text they talk about railroads A, B, and C, and it does not matter whether that is a Canadian railroad entirely or a U.S. railroad that is partly in Canada and partly in the United States.

So the question would be if there is a demand to move, even if it is more Canadian fertilizer, this direction, and hopper cars can be used for either grain or such things as fertilizer. It seems possible to me that that would be a logical place for both locomotives and hopper cars to go to bring that raw material down here, perhaps for further processing or actually for use.

The other thing is, if the spirit and intent of this free trade agreement is to stimulate more investment in Canada by U.S. firms, U.S. railroads may in fact look at investing in some Canadian lines and the other side of that, or the reverse of that.

If it is the reverse, I would assume that the Canadian government, the Canadian Wheat Board, Grain Commission, may have some political pressure to put on U.S. firms to possibly encourage more service for their own clients and their own economy.

So I think those are all relevant concerns. The aspect of it that this New Grain Transportation Deregulation Act in Canada does not provide for any public interest investigations. I do not know that it is a real concern, but it seems to me that it is a possible concern that you cannot even get at information, like our secret contract rates down here for unit trains.

Perhaps you will not even be able to get at the information in Canada. So how are you going to compile a case to substantiate a section 22 complaint, et cetera? It seems to me that the whole thing has a lot of holes in it and a lot of questions that are yet to be answered.

Senator Exon. I would like to inquire a little further about this movement of grain back and forth, and I was very much interested, Mr. Senter, in your statement correcting what you received from the previous panel with regard to corn moving into Canada.

I could see that we could—although we could have some problems between groups of farmers, if we had a situation that we were moving corn on hopper cars up to Canada and loading up their wheat and bringing it back down, that that would be free and fair trade.

I guess one of the concerns that I have is that when you have something called the free trade agreement, farmers, who are free traders by nature, say: Amen, that is what we want. And so I do not believe that farmers in general have focused on this, because it sounds good.

But are you saying that—I took it from the testimony of the previous panel that we were improving significantly the shipment of—although no wheat was coming down, more and more corn was going up.

Are you saying that on net that our corn shipments to Canada have not increased, but decreased?

Mr. SENTER. Yes. Currently we are not exporting any corn to Canada. 200,000 metric tons of Canadian corn is flowing this year into the United States, and so where in 1984 we were sending two million metric tons of U.S. corn into Canada, that has reversed with their tariff and now the corn is flowing into the United States.

So we have both wheat and corn flowing into the United States currently under the situation we have now.

Senator EXON. So your testimony it seems to me is directly in contradiction to what we heard from the last panel, and I would ask staff to look into that and, if they concur with this panel, to write a follow-up question to the Department officials that were here.

And if you find that is not the case, write a letter to Mr. Senter about this, and let us get his facts and figures. I think that is something that should be straightened out.

I would simply say that so much of this agreement with regard to agriculture is going to be a great deal over along period of time. Now, we agree that maybe in the short run it is not going to be too helpful.

But I guess I picked that up right away, and I am very much concerned about that, because it just seems to me that it proves the point that we heard earlier and commented on, that it might be ideal for manufactured goods, but it might be a pretty bad thing for the American food producers.

As I understand it, under this agreement Canada still has a 39 cent tariff on U.S. corn left in place by the free trade agreement. I guess there are lots of things that I think the farmer in Nebraska and the United States Senator in Washington really do not know about this agreement, and that is one of the reasons that I held this hearing today, to look at it from both the transportation standpoint—and I do not believe that we have even scratched the surface on that, except that, if you have not see the article that I referred to in the Pro Farmer Magazine of August, you had better take a look at it because it is pretty clear there that when they talk about surge capacity and where they are going to go with some of this grain, it is pretty clear that, since they make reference specifically to the Soo Line Railroad and the Burlington and then talk about the Mississippi for barge traffic to the Gulf, that they are looking at least at certain times of the year to using our transportation system to move some of their products that they customarily will sell.

Whether you call it dumping—it is not dumping, I guess, if you bid ten cents a bushel or one cent a bushel lower for shipment of wheat to some third world nation. And they have been pretty good at that in the past, and I suspect they will be in the future.

Mr. Senter.

Mr. SENTER. Senator, I would like to point out that you have certain times of the year where Canada cannot make grain exports because you lose the access. You know, it freezes over in that country.

Well, when that happens, then they will be able to kick in immediately, and it will not just be in a time of surge capacity. They will still have direct access to the river. They will have access by rail on down to our Gulf ports if they need it.

So we will greatly increase their ability to move grain year-round. And in this 400,000 metric tons of wheat that came into the U.S. and the corn that is coming in now, I would guess that most of this is enjoying rail subsidy right now in the Canadian system, and it is flowing into the U.S.

And we are spending a lot of money for wheat EEP payments and to subsidize our exports, and Canadian grain is flowing in, either displacing domestic wheat and feed grain sales or else it is comingled and we are subsidizing the wheat.

Senator EXON. How about this comingling? The last panel poohpoohed that because it is against the law. I guess the point that I made then is that we have had all kinds of foreign material mixed in with grain. That is against the law. It still goes on.

I guess if you have a bushel of Canadian wheat and three bushels of American wheat in an elevator, I do not know how—how do you keep it separated?

Mr. SENTER. Senator, I will just use Cargill as an example. They own elevators and operations in Canada. They own operations in the United States. There is no stamp made, "grown in Canada," on those kernels of wheat or corn.

Senator EXON. Are you sure? Have you checked it?

Mr. SENTER. I checked.

And when that is loaded in hopper cars and it flows into the system, there is absolutely no way you can tell where that grain came after it is comingled through the system. And it may be illegal, but it is one of those things that is impossible to actually tell, where it is, what it has been blended with.

And chances are it would be a blend of both U.S. and Canadian. But there is no way to police it.

Senator EXON. So there is substantial comingling today, and last year and the year before?

Mr. SENTER. I am not aware of any Canadian grain elevators only in the United States, and there are substantial amounts of Canadian grain flowing into our system now.

Senator EXON. And by and large, wheat is wheat, is that what you are saying?

Mr. SENTER. Wheat is wheat.

Mr. MCGUIRE. Senator, I cannot confirm or totally verify this, but I know this. When I was at the Houston Gulf port in the spring of 1987, there was a vessel being loaded under the export enhancement program with U.S. durum for Algeria that was graded number 3 U.S. durum, which is relatively low grade.

And we looked at it and took a handful of it and there was frost damage, obvious frost damage in that durum. But I had no recollection of any frost damage that year in the U.S. crop.

So I asked the elevator operator, I said: Is this U.S. frost-damaged durum, and where did it come from? He said he cannot prove it, but he thought and heard that there was Canadian durum, frost-damaged durum in there. And so if that was the case—and I do not know how in the world to prove it——

Senator EXON. How do you ever prove that?

Mr. MCGUIRE. That is the point. I could not prove it, nor could I dispute it.

But if in fact it was Canadian frost-damaged durum, two points. Number one, it is low quality Canadian grain moving into the system. And number two, it did in fact take a free ride on our export enhancement program, illegal or not. It really does not matter.

Concerning the comingling aspect, I do not see how in the world they will police it. The "tighter" rules that have entered since the Grain Quality Act of 1986 certainly take us in that direction, but I still do not know how anyone can ever totally confirm it.

Mr. SENTER. Senator, I would just like to say that I think the biggest point is not is our subsidy being used direct on Canadian grain. I think the major point is that it is displacing domestic sales of our product, which is pushing more of our U.S. grain product and putting it up to be subsidized to get rid of it in world markets.

So the Canadian grain, what you are doing is you are displacing U.S. sales, and then that is putting more of our product up, having to be subsidized to be exported. I think that is displacing domestic sales. That is a very key point.

Senator EXON. Thank you very much for your interesting testimony.

I thank you for coming today, gentlemen, and we are adjourned.

[Whereupon, at 3:37 p.m., the subcommittee was adjourned.]

[The following information was subsequently received for the record:]

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

NEBRASKA DRY BEAN COMMISSION

4502 Avenue I
Scottsbluff, Nebraska 69361
(308) 632-1258

1988 JUN -6 AM 9:44

Susan Haye
Executive Secretary

Terrance L. Terrell
Chairman
Hay Springs, NE.

Gary L. Kelley
Vice Chairman
Morrill, NE.

Jeffrey L. Pickering
Secretary/Treasurer
Scottsbluff, NE.

Ted G. Chilcoe
Bridgeport, NE.

Virginia M. Dudden
Venango, NE.

Steve Harris
Brule, NE.

Dale R. Johnson
Brule, NE.

Charles R. Wilmer
Gering, NE.

Roger Yost
Scottsbluff, NE.

May 26, 1988

Senator J. James Exon
United States Senate
330 Hart Senate Office Bldg.
Washington, D.C. 20510-2702

RE: Crows Nest Rail Subsidy

Dear Senator Exon:

The Nebraska Dry Bean Commission appreciates this opportunity to offer comment for the record on the Crow's Nest Rail Subsidy. As previous correspondence from the Commission has stated, it is very concerned about this issue.

To date, this issue has not been resolved. It appears that there is an effort to diminish the significant impact of this subsidy on the dry bean industry in particular, and agriculture as a whole. Correspondence received in the Commission office, while appreciated, tends to indicate a feeling that the Crow's Nest should be ignored in favor of the FTA as a whole and that a countervailing duty would be the only solution available.

The Crow's Nest, also called the Western Grain Transportation Act, has been partially addressed in the Free Trade Agreement (FTA). Canada has agreed to eliminate this subsidy on agricultural products shipped to the U.S. through Western Canadian ports. Since the issue is already addressed in the FTA, it should be expanded to include the elimination of the Crow's Nest on agricultural products shipped to the U.S. from ALL Canadian ports.

The U.S. shippers of dry beans do not receive any freight subsidies. To ignore the issue places the U.S. agricultural community at a disadvantage (see attached scenario). To turn around and impose a countervailing duty to counteract the subsidy contradicts the philosophy of the Free Trade Agreement. The economic impact of the Crow's Nest on the dry bean industries, in both countries, is significant, and the Nebraska Dry Bean Commission requests that the total elimination of the Crow's Nest subsidy be included in the FTA.

Thank you for your attention.

Sincerely,

Gary L. Kelley
Vice-Chairman

SCENARIO

The following is based on shipments of Great Northern beans, which are grown in Alberta and Nebraska.

Cost to U.S. Shipper from Nebraska to Chicago: $1.30/cwt
120,000# load x 1.30 cwt = $1,560.00/rail car

Cost to Canadian Shipper from Alberta to Thunder Bay: $0.25 cwt
120,000# load x $0.25/cwt = $300.00/rail car

The Impact: $1,560.00 U.S. non-subsidized cost
- 300.00 Canadian subsidized cost

$1,260.00 Disadvantage to U.S. Shippers

Are There Alternative Methods of Transporting Grain?

By Paul Sim

It's always useful to examine the way we do things and ask ourselves if there's any better way to do it. In the grain industry we periodically take stock of our handling and transportation system with a view toward making improvements.

Recently, several studies have focused attention on what, if any, alternatives exist to our present methods and routes of transporting grain to export position. Cleaning more grain on the prairies, using bulk loading facilities rather than terminals at the ports, and moving grain south through the Mississippi waterway have all been examined as potential alternatives which could be beneficial.

Why look at alternatives?

Canadian prairie grain farmers are a long distance from any tidewater port. No other grain producers in the world transport their grain such a distance to market.

As a result, transportation costs are a major expense to Canadian grain producers (see page 12). Anything done to reduce the cost of transporting grain to port will help ensure that western farmers stay competitive in the international market. It will also put more dollars in the pockets of prairie grain producers.

At times the capacity of the existing handling and transportation system is taxed to the limit. Moving grain through alternate routes and facilities could relieve some of the pressure on the existing system during peak periods.

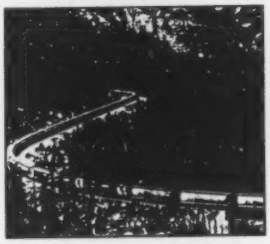
The strike/lockout at Thunder Bay in September 1986 and the West Coast longshoremen's dispute highlighted our dependence upon traditional routes for exporting grain. Certain alternatives could also act as an outlet to move grain when more traditional routes are closed as a result of labor disputes.

What are the alternatives?

This analysis will look at only two of the many alternatives suggested:

1. The increased use of inland cleaning and movement through bulk loading facilities at the port.

2. The potential of moving Canadian grain south through the Mississippi waterway to the Gulf of Mexico.



Inland Cleaning

A recent study by Dr. James Leibfried, a former Commissioner of the Canadian Wheat Board, examined grain movement efficiency. In the study Leibfried made some recommendations in support of inland cleaning for prairie grain. If the implementation of these recommendations results in more grain being cleaned on the prairies, there could be some cost reductions.

Over the years, the grain transportation system in Canada has depended on cleaning grain to export standards at seaport positions rather than on the prairies. There are a number of reasons for this.

First, it was felt that the market for screenings was better at the ports. In the past few years, the build-up of unsold screenings at ports has certainly brought this argument into question. (The port of Churchill has not yet sold its screenings from the previous crop year and almost all terminals at Thunder Bay have problems with dockage taking up storage space). Secondly, the transportation subsidy (Crow Benefit) paid directly to the railways favors the shipment of screenings off the prairies rather than encouraging their use at home.

What are the advantages of cleaning more grain on the prairies? One of the most obvious is that some of the jobs and revenue associated with cleaning grain and processing screenings could be maintained on the prairies rather than in Thunder Bay or on the Pacific Coast. Each dollar of value added before a product is shipped would benefit the struggling economies of the prairie provinces.

In addition, if more grain is cleaned on the prairies, fewer screenings will be shipped to port. This would reduce the amount of product being moved and make it possible to use our transportation resources more efficiently. Rather than tying up our limited handling and transportation resources moving dockage, this capacity could be concentrated more effectively on moving the higher value cleaned product.

Furthermore, there could be some significant cost advantages to cleaning more grain on the prairies. One of these benefits could come from a slightly lower freight rate. Under the present situation, the farmer pays the statutory freight rate on the net amount of grain (after removal of dockage) he

delivers to an elevator. If the grain company ships the grain uncleaned, it pays the freight on the dockage. However, this dockage is also shipped under the statutory freight rate. Therefore, in the case of screenings, the government transportation subsidy (about $24/tonne) actually accrues to the grain company.

Let's examine what might happen to the freight rate if the grain was cleaned on the prairies. We'll assume the average yearly movement of grain to port is about 30 million tonnes and approximately two per cent of that is dockage. This means about 600,000 tonnes of dockage is shipped off the prairies each year. Since these screenings are shipped at the statutory rate, the government contributes about $14.4 million per year (600,000 tonnes x $24/tonne) to moving dockage.

If all grain was shipped clean, the total volume of grain moved would be reduced by 600,000 tonnes. Since the same number of government dollars would be applied against a lower volume of grain, the government contribution accrued directly to the producer would increase. This could result in a slightly lower statutory freight rate. Producer freight rates could decline by about 47 cents/tonne.

Under the terms of the Western Grain Transportation Act, farmers are required to pay the full freight rate on shipments in excess of 31.5 million tonnes. Thus, minimizing the total amount of dockage shipped would certainly be in the best interest of the prairie farmer.

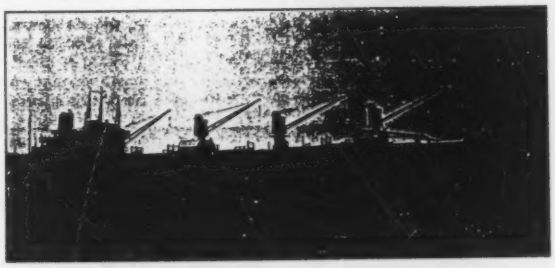
There are other ways in which inland cleaning can lead to lower costs. Grain shipped containing dockage must be moved through one of the grain terminals at port to be cleaned. Grain cleaned on the prairies can move through one of several lower cost alternatives.

Bulk Loading Terminals

One of these options involves using bulk loading terminals at the ports rather than the traditional grain terminals. Bulk loading terminals exist at Thunder Bay and on the West Coast. These facilities are used for loading such commodities as potash and coal from rail cars directly onto ships.

These terminals aren't equipped with grain cleaning facilities. In order to be used for grain shipments, the grain would have to be cleaned inland before shipment to port. The advantage of using these bulk loaders is that the handling charges are much lower than those at major grain terminals.

Recent price quotes indicate cleaned grain could be moved through these facilities at a cost of about $2.75 per tonne as opposed to $4.30 per tonne at the grain terminals. In addition, no storage charges would be incurred since the commodities would move directly from rail cars to a ship. Terminal storage charges at port, which averaged $2.03 per tonne in 1985/86, could be avoided. The total savings from using these bulk loading facilities could be as high as $3.58 per tonne.



Winter Rail Movement

In winter, when the St. Lawrence Seaway is closed to navigation, the Canadian Wheat Board often chooses to move grain by rail from Thunder Bay to transfer elevators along the St. Lawrence. This movement keeps grain supplies at the east coast ports at reasonable levels.

There appear to be some definite cost advantages to using an inland cleaning facility for grain moved by rail to the St. Lawrence. By cleaning the grain at an inland terminal and shipping directly to the east coast, the handling charges associated with going through Thunder Bay could be avoided. These amount to approximately $5 per tonne.

Volumes moved under the winter rail program can vary greatly from year to year depending on the demand for grain on the east coast. Over the past six years the amount moved in this manner has ranged from a high of 1.4 million tonnes in 1981/82 to zero in 1984/85. The average during this period was about 710,000 tonnes. Based on this average amount, a savings of $5 per tonne would result in a net annual reduction of about $35.5 million dollars for prairie farmers.

It's unlikely that cleaning grain inland will ever completely replace the use of port terminals for cleaning grain. However, some important cost reductions and efficiencies could be obtained by a more effective use and possible expansion of our inland cleaning capabilities.

The Mississippi Waterway

The Canadian Transport Commission recently published a discussion paper on the potential of using the Mississippi waterway to move Western Canadian grain south for export via the Gulf of Mexico. It's interesting to look at the this alternative compared to using the St. Lawrence Seaway.

During the 1970s, U.S. firms expanded grain handling and transporting facilities. Today, with U.S. grain exports about 40 per cent below record levels, that country has a glut of export capacity for grain. With de-regulation, the rail and water carriers compete aggres-

continued on page 25

Alternative Methods of Moving Grain Continued from page 9

sively for the reduced volume. This often leads to extremely low rates.

Once again, the use of the Mississippi alternative would be dependent on cleaning grain to Canadian export standards before it left the prairies. Grain would be railed to Minneapolis via the Soo Line Railway or the Burlington Northern Railway. At Minneapolis it would be loaded on a barge and towed down the Mississippi to New Orleans, where it could be transferred to ocean-going vessels.

The table below shows the comparative costs of moving western grain via the Mississippi compared to movement through the St. Lawrence Seaway.

The rates charged on the southern route can vary dramatically depending on the time of year and the level of service provided. Consequently, a range of possible costs is shown. We see that the Mississippi is quite competitive with the Seaway and may even provide some cost advantages.

The actual distance by rail from Winnipeg to Thunder Bay (440 miles) or to Minneapolis (450 miles) is similar. The rail freight rate shown from Winnipeg to Thunder Bay is a combination of the farmer's portion and the government contribution through the WGTA. The average government contribution to prairie grain movement is approximately $24 per tonne. Since rates are distance related, both the producer rate and the government share are lower than average on grain moving from Winnipeg to Thunder Bay.

ST. LAWRENCE ROUTE VS. MISSISSIPPI ROUTE
($Can./tonne)

St. Lawrence		Mississippi	
Winnipeg to Thunder Bay (Rail, 1986)		Winnipeg to Minneapolis (Rail)	$19.45
Producer	$4.00		
Government	$16.74		
Elevation at Thunder Bay	$4.31	Elevation at Minneapolis	$1.90 - $3.82
Lake Freight to St. Lawrence	$16.84	Barge to New Orleans	$10.71 - $18.00
Transfer to ocean vessel	$3.81	Transfer to ocean vessel	$1.90 - $3.82
Total	**$45.70**		**$33.96 - $45.09**

There are a couple of points to keep in mind when examining this alternative. First, the Mississippi rates will likely be more

variable in the long term. The rate could increase quickly if the demand for grain export movement in the United States improves over the next few years.

Secondly, the American government provides substantial sums of money annually for upgrading and maintaining the waterway. These costs are not recovered through user fees or tolls, as is the case with the St. Lawrence Seaway. It's questionable whether the United States would be prepared to subsidize the movement of Canadian grain on the Mississippi at the same rate as American produced commodities.

In addition, the "Crow Benefit" transportation subsidy doesn't apply to grain shipped to ports outside Canada. Under present regulations, the cost of moving grain through the Mississippi may be lower, but the farmer would have to pay virtually all rail freight costs. This would increase the direct cost to him.

In order to take advantage of the lower Mississippi costs, the "Crow Benefit" would have to be applied to Canadian grain moving through the United States. Alternatively, the subsidy would have to be changed so that it is paid directly to the farmer. He could then use it to move his grain as he see fit.

Finally, any grain diverted to the Mississippi would reduce the volume through the Seaway. This could raise costs for grain moving through the St. Lawrence since many of the costs associated with that system are fixed.

Conclusion

Alternate grain transportation routes could offer some savings in handling and transportation. While these methods will never completely replace our traditional system, they do offer producers more options and flexibility.

One of the most important areas where these alternatives can play a role is in meeting the needs for surge capacity. At certain times our handling and transportation system is pushed to the limit. It would be very expensive to build new internal structures to meet these short-term capacity requirements. Diverting some of our shipments to alternate routes and facilities could be a cost effective way of ensuring the maximum amount of grain is moved at the lowest possible cost.

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